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BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO **PUCO**

In the Matter of the Application of Columbus )  
Southern Power Company for Approval of its )  
Electric Security Plan; an Amendment to its )  
Corporate Separation Plan; and the Sale or )  
Transfer of Certain Generating Assets )

Case No. 08-917-EL-SSO

and )

In the Matter of the Application of Ohio )  
Power Company for Approval of its Electric )  
Security Plan; and an Amendment to its )  
Corporate Separation Plan )

Case No. 08-918-EL-SSO

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**Direct Testimony and Exhibits of**

**Michael J. McGarry, Sr.**

**On Behalf of**

**The Ohio Hospital Association**

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October 31, 2008

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**Direct Testimony and Exhibits of  
Michael J. McGarry, Sr.**

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**Direct Testimony and Exhibits of  
Michael J. McGarry, Sr.**

**List of Exhibits**

Exhibit # MJM-1	Summary of Proposed Cost Increases
Exhibit # MJM-2	Company's October 16, 2008, filing
Exhibit # MJM-3	Companies' Response to Staff Data Request 10
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**Direct Testimony and Exhibits of  
Michael J. McGarry, Sr.**

**Background and Experience**

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

2    **A.    My name is Michael J. McGarry, Sr. I am President and Chief Executive Officer of Blue**  
3           **Ridge Consulting Services, Inc. My business address is 2131 Woodruff Road, Ste 2100**  
4           **PMB 309 Greenville, SC 29607.**

5    **Q.    PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.**

6    **A.    Prior to assuming my present position, I was Vice President of East Coast Operations**  
7           **from July 2003 to June 2004 with Hawks, Giffels & Pullin (HGP), Inc. In that position, I**  
8           **was responsible for developing and overseeing client engagements in utility regulatory**  
9           **affairs, management audit, and rate case management. From August 2001 to July 2003, I**  
10          **was an independent consultant working on a number of different projects including a**  
11          **renewal/update of delivery service tariffs for Illinois Power and several utility street**  
12          **lighting cost benefit assessment projects. From June 2000 until August 2001, I was a**  
13          **senior consultant with Denali Consulting, Inc., a utility supply chain and e-procurement**  
14          **strategy and implementation firm. From October 1997 through June 2000, I was**  
15          **employed by Navigant Consulting, Inc. and several of its predecessors or acquired firms**  
16          **working on a number of different projects including a management audit of Southern**  
17          **Connecticut Gas Company and the original delivery service tariff filing for Illinois**  
18          **Power. From July 1985 through October 1997, I was with the New York State**  
19          **Department of Public Service (NYSDPS) in its Utility Operational Audit Section where**  
20          **we conducted focused, operational audits in many facets of utility operations for all**

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1 sectors of the utility industry including gas, electric, telecommunications, and water.  
2 Prior to my employment with the NYSDPS, I was a rate analyst with Orange and  
3 Rockland Utilities (1981 to 1983) and then Seminole Electric Cooperative (1983 to  
4 1985). I received my Masters of Business Administration from the State University of  
5 New York at Buffalo in 1996 and a Bachelor of Arts in Economics from Potsdam  
6 College (SUNY) in 1981.

7 **Q. WHERE HAVE YOU PRESENTED TESTIMONY?**

8 A. I have presented or supported testimony in Colorado, Delaware, Illinois, Maine,  
9 Michigan, Maryland, New York and Pennsylvania. These proceedings included  
10 testimony involving management decision and prudence impacts, operations and  
11 maintenance expenses, capital investments, revenue requirements, project management,  
12 and other areas. Most recently, I have testified in a number of proceedings before the  
13 Michigan Public Service Commission on behalf of the State Attorney General and before  
14 the Maryland Public Service Commission on behalf of Staff. These cases have included  
15 electric and gas base rate, power supply cost recovery and gas cost recovery cases. A list  
16 of these cases is included in Attachment A. As a staff member with the NYSDPS, I  
17 testified regarding the prudence of New York State Electric & Gas Company's capital  
18 investment in coal cleaning technology, regarding the prudence of Jamaica Water  
19 Company's investment in a new customer information system, and regarding a show  
20 cause proceeding involving Long Island Lighting's operation and maintenance expenses.  
21 I have testified on behalf of the Illinois Citizens Utility Board and the Cook County  
22 State's Attorney's Office and the City of Chicago in Docket 05-0597 and supported client

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1 testimony for what is now Ameren-IP related to delivery service tariffs filings in 1999  
2 and 2001. I testified on behalf of the Public Advocate of the State of Maine in Docket  
3 2004-813 on the appropriateness of an accelerated cast-iron replacement program.

4 **Q. WITH RESPECT TO MATTERS CONCERNING BASE RATE INCREASES,**  
5 **CAN YOU HIGHLIGHT BRIEFLY YOUR EXPERIENCE?**

6 **A.** I have reviewed, analyzed, and testified on base rate increase filings in a number of  
7 jurisdictions including Consumers Energy Company in Michigan, Delmarva Power &  
8 Light Company in Delaware, Potomac Electric Power Company in Maryland and the  
9 District of Columbia, and Commonwealth Edison in Illinois.

10 **Q. HAVE YOU PROVIDED A MORE DETAILED DESCRIPTION OF YOUR**  
11 **QUALIFICATIONS?**

12 **A.** Yes. A description of my qualifications is included as Attachment A.

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**Purpose and Summary of Direct Testimony**

1    **Q.    FOR WHOM ARE YOU APPEARING IN THIS PROCEEDING?**

2    **A.    I am appearing on behalf of the Ohio Hospital Association ("OHA" or "Hospitals").**

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

4    **A.    My testimony will point out several significant shortcomings of the Companies'**  
5       proposals related to the overall reasonableness of the ESP and the likely effect of those  
6       shortcomings on customers including OHA.

7    **Q.    PLEASE SUMMARIZE YOUR TESTIMONY**

8    **A.    I believe that the ESP filing as proposed unfairly burdens customers with costs that have**  
9       not been adequately reviewed and evaluated as to their appropriateness and legitimacy by  
10      the parties to this proceeding. The Commission, as a result, should issue an order that  
11      requires Columbus Southern Power Company ("CSPC") and Ohio Power Company  
12      ("OPC"), subsidiaries of American Electric Power Company, Inc. ("AEP" or "AEP-  
13      Ohio") to file the necessary schedules, data, and information that would enable the parties  
14      and the Commission to properly evaluate AEP's ESP filing so that a clear determination  
15      of whether this filings is "more beneficial in the aggregate" than would be a market rate  
16      offer under Ohio Revised Code Section 4928.143. I will refer to CSPC and OPC  
17      collectively as the "Companies".

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**Background**

**Q. PLEASE PROVIDE THE BACKGROUND WITH THIS CASE.**

**A.** On, May 1, 2008, Amended Substitute Senate Bill No. 221 (SB221) was signed into law by the Governor of Ohio. SB221 is intended to provide a process to establish generation rates via an Electric Security Plan or a Market Rate Offer. SB221 required electric distribution utilities in Ohio establish a standard service offer ("SSO")<sup>1</sup> based on a market rate offer ("MRO")<sup>2</sup> or an electric security plan ("ESP")<sup>3</sup>. Electric distribution utilities are required to file either an ESP and/or a MRO as part of this legislation. On September 17, 2008, the Public Utilities Commission of Ohio ("PUCO" or "Commission") issued an Order in Case No. 08-777-EL-ORD adopting rules for Standard Service Offer, Corporate Separation, Reasonable Arrangements, and Transmission Riders for Electric Utilities Pursuant to Sections 4928.14, 4928.17, and 4905.31, Revised Code, as amended by Amended Substitute Senate Bill No. 221. These rules defined the procedural and filing requirements for electric distribution utilities when filing either ESP or MRO.

**Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE PURPOSE OF  
COMMISSION'S ORDER AND RESULTING RULES AND CHANGES TO THE  
OHIO ADMINISTRATIVE CODE.**

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<sup>1</sup> "Standard service offer" means an electric utility offer to provide consumers, on a comparable and nondiscriminatory basis within its certified territory, all competitive retail electric services necessary to maintain essential electric service to consumers, including a firm supply of electric generation service.

<sup>2</sup> "Market-rate offer" means an electric utility plan for the supply and pricing of electric generation service pursuant to section 4928.142 of the Revised Code.

<sup>3</sup> "Electric security plan" means an electric utility plan for the supply and pricing of electric generation service including other related matters pursuant to section 4928.143 of the Revised Code.



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1    **A.**    The Commission's order sets forth the processes and the required information, rationale,  
2           and data electric distribution utilities must file when justifying the inclusion of various  
3           provisions and costs within their respective ESP and/or MRO. The order modified  
4           sections of the Commission's rules contained in Section 4901:1-35 of the Ohio  
5           Administrative Code.

6    **Q.    PLEASE PROVIDE AN OVERVIEW OF THE COMPANIES' PROPOSAL.**

7    **A.**    AEP-Ohio filed its application to the Commission on behalf of CSPC and OPC under the  
8           requirements of SB221 on July 31, 2008, for an ESP. The Companies are not seeking an  
9           MRO at this time, but reserve the right to file an MRO at a later date.<sup>4</sup> The major  
10          components of AEP-Ohio's ESP include:

- 11               • A fuel adjustment clause;
- 12               • A non-fuel base generation annual rate adjustments including environmental
- 13               capital carrying costs;
- 14               • A provider of last resort (POLR) charge;
- 15               • A base distribution rate adjustment for enhanced reliability and gridSMART;
- 16               • An energy efficiency and demand reduction rider;
- 17               • An economic development rider; and
- 18               • Recovery of previously authorized distribution regulatory assets.<sup>5</sup>

19           If approved by the Commission, this ESP will cover the three year period  
20          beginning January 1, 2009, thru December 31, 2011. In addition, the Companies propose

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<sup>4</sup> Columbus Southern Power Company's and Ohio Power Company's Application dated July 31, 2008, page 2.

<sup>5</sup> Direct Testimony of Joseph Hamrock, Page 10, lines 8-15.

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1 to limit the effect of any resulting price increases to customers as a result of  
2 implementing the plan components described above to 15% per year for the period of the  
3 plan.<sup>6</sup> Any excess costs above the 15% will be deferred via the fuel adjustment clause for  
4 later recovery.

5 Finally, the Companies are proposing several riders that will recover transmission  
6 costs and costs for other government mandates.

**Discussion**

7 **Q. WHAT IS THE OVERALL DOLLAR IMPACT OF THE COMPANIES'**  
8 **APPLICATION?**

9 **A.** For CSPC, AEP-Ohio is proposing to increase rates to customers by \$238,488,844  
10 (13.41%) in 2009, \$302,566,237 (15%) in 2010 and \$347,242,516 (15%).<sup>7</sup> For this three  
11 year period, AEP-Ohio is proposing to raise customer rates under the ESP by  
12 \$889,010,544 or 50%. For OPC, AEP-Ohio is proposing to increase rates to customers  
13 by \$224,453,990 (13%) in 2009, \$292,573,199 (15%) in 2010 and \$338,459,179 (15%).<sup>8</sup>  
14 For this three year period, AEP-Ohio is proposing to raise OPC customer rates under the  
15 ESP by \$853,486,369 or 50%. If the ESP's are approved by the Commission, AEP-Ohio  
16 will raise customer rates in Ohio by more than **\$1.7 Billion** over the next three years.

17 **Q. IS THIS ALL THAT CUSTOMERS, INCLUDING OHA, WILL EVENTUALLY**  
18 **PAY?**

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<sup>6</sup> Direct testimony of Joseph Hamrock, Page 11, lines 1-3.

<sup>7</sup> Exhibit DMR-1 page 1 of 2 columns marked "total increase" and "total bill % increase" for 2009, 2010 and 2011.

<sup>8</sup> Exhibit DMR-1 page 2 of 2 columns marked "total increase" and "total bill % increase" for 2009, 2010 and 2011.

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1    **A.**    No. The Companies are proposing to limit the increase in rates to 15% per year absent  
2           changes in other government mandates. However, in the first year of the ESP, the  
3           Companies are forecasting that the initial fuel adjustment costs ("FAC") will be such that  
4           the total impact to customers will be greater 15%. The Company is projecting that  
5           \$112.0 million of FAC will be deferred for CSPC and \$300 million will be deferred for  
6           OPC. The Company is then proposing to include \$34.1 million and \$115.4 million of  
7           carrying charges in those first three years before the Companies begin recovering the  
8           deferred charges from customers in 2012.<sup>9</sup> The Companies propose to then collect  
9           additional carrying charges during the period of time that Base FAC revenues exceed  
10          Base FAC revenue requirements. In total, the Companies are proposing to collect \$1.012  
11          billion of additional charges related to deferred FAC expenses so that it can limit the  
12          potential increase to customers in the first three years of the ESP<sup>10</sup> which will be  
13          recovered through an FAC tracker mechanism.<sup>11</sup>

14   **Q.**    **IS THERE ANYTHING ELSE THAT CUSTOMERS, INCLUDING OHA, WILL**  
15           **EVENUALLY PAY?**

16   **A.**    Yes. The Companies are proposing to begin recovery of costs associated with previously  
17          authorized regulatory assets.<sup>12</sup> With carrying charges, the Companies will collect an

<sup>9</sup> Exhibit LVA-1 page 1 of 1 lines marked "Deferred FAC expense" and "deferred carrying charge" for 2009, 2010 and 2001.

<sup>10</sup> For CSPC - \$112.0M of Deferred FAC plus \$99.4M of carrying charges, For OPC - \$300M+\$139M of deferred FAC plus \$361.8Million of carrying charges - See Exhibit LVA-1 page 1 of 1.

<sup>11</sup> Direct testimony of Lenord V. Assante, page 21, Lines 8-11.

<sup>12</sup> These previously approved assets include various costs associated with implementing customer choice in case no. 99-1729-EL-ETP and 99-1730-EL-ETP, rate case expenses in case no 04-169-EL-UNC, carrying charges on distribution line extension charges in accordance with the PUCO Order in Case No. 01-2708-EL-COI, the Monongahela Power Company transfer integration costs and the companies' voluntary Ohio Green Power Pricing program - see Direct Testimony of Leonard V. Assante, pages 31 and 32, lines 20-23 and 1-13, respectively.

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1 additional \$304 million (\$182.4 million for CSPC and \$121.6 for OPC) from 2012 to  
2 2018. These costs will also be recovered through a tracker and true-up mechanism.<sup>13</sup>

3 **Q. WHAT IS THE TOTAL OF THE MINIMUM INCREASES THAT CUSTOMERS**  
4 **WILL INCUR IF THE ESP IS APPROVED?**

5 **A.** The Companies are proposing to recover increased costs from customers including OHA  
6 over the next 10 years of **\$3.059 Billion**; more than half of this will be collected in the  
7 first three years. Exhibit MJM-1 contains the derivation of my calculations. This does  
8 not include increases to costs on distribution and non-FAC generation related costs as  
9 well as other government mandates and initiatives that are also likely to be included in  
10 subsequent ESP filings.

11 **Q. ARE THERE ANY COMPONENTS OF THE INITIAL INCREASES IN THE**  
12 **FIRST THREE YEARS THAT ARE SIGNIFICANT?**

13 **A.** Yes. Included in the Companies' proposed increases under the ESP are increases to two  
14 component, Non-FAC generation and distribution costs. AEP-Ohio is proposing to  
15 increase NON-FAC generation costs annually by 3% and distribution costs annually by  
16 7% for CSPC; and 7% and 6.5% respectively for OPC. In total, the Companies are  
17 seeking to recover more than \$272.3 million for non-FAC related base generation and  
18 distribution costs (see DMR-1).

19 **Q. WHAT ARE THESE NON-FAC GENERATION AND DISTRIBUTION COST**  
20 **INCREASES INTENDED TO RECOVER?**

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<sup>13</sup> Direct testimony of Lenord V. Assante, page 31, lines 7-11.

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1    **A.**    The Non-FAC generation cost annual cost increase (3% for CSPC and 7% for OPC) is so  
2           that the Company can recover the capitalized costs and related carrying charges  
3           associated with investments the Companies made to meet environmental requirements  
4           during 2001 to 2008 and further anticipated expenditures in 2009, 2010 and 2011.<sup>14</sup> The  
5           distribution rate increase (7% for CSPC and 6.5% for OPC) are intended to recover costs  
6           associated with enhancing distribution service reliability and Phase 1 of the gridSMART  
7           program in CSP's service territory.<sup>15</sup>

8    **Q.**    **WHAT DO YOU CONCLUDE FROM THE INFORMATION YOU HAVE**  
9           **PRESENTED THUS FAR IN THIS TESTIMONY?**

10   **A.**    With over \$3 billion of proposed increases the Companies are proposing to collect from  
11           its customers including the members of OHA over the next 10 years, it is vital that the  
12           review of the supporting information data and assumptions be thorough and completed  
13           with sufficient due diligence.

14   **Q.**    **DO YOU HAVE ANY CONCERNS RELATED TO THE PROCESS THAT IS**  
15           **BEING USED TO ESTABLISH THE RATES IN THE COMPANIES ESP**  
16           **FILING?**

17   **A.**    Yes. SB221 requires that the Commission issue an order related to the Companies' filing  
18           150 days after the initial application filing date.<sup>16</sup> This timeframe is much shorter than I

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<sup>14</sup> Columbus Southern Power Company's and Ohio Power Company's Application dated July 31, 2008 page 5.

<sup>15</sup> Columbus Southern Power Company's and Ohio Power Company's Application dated July 31, 2008 page 6.

Note: the Company's application notes that six additional items will be reflected in distribution rates; provider of last resort, economic development/job retention, energy efficiency/peak demand reduction requirements, alternate feeder service, line extension charges and Commission – authorized distribution regulatory assets.

<sup>16</sup> S.B. 221 4928.143 (C) (1).

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1 have experienced in other jurisdiction including Ohio. From my perspective, the time  
2 frame is aggressive. The parties to the proceeding including the OHA, Staff, Office of  
3 the Ohio Consumers' Counsel (OCC), and others have the burden to be expeditious to  
4 obtain, review, analyze, and develop positions on the issues, costs, and underlying data  
5 that AEP-Ohio submitted in its initial filing.

6 In this particular instance, the Companies filed its application on July 31, 2008,  
7 and the Attorney Examiner issued a procedural order on August 5, 2008, which was later  
8 revised on September 5, 2008. The revised procedural order required the interveners  
9 including OHA file testimony on October 31, 2008, which is 92 days from the initial  
10 filing. However, as a result of an Order issued by the Commission on September 17,  
11 2008, the Companies agreed to comply with initial rules which set forth what additional  
12 information would be required in AEP-Ohio's application.<sup>17</sup> As a result of a meeting  
13 with Staff, ordered by the Attorney Examiner on September 23, 2008, AEP-Ohio  
14 submitted additional information on October 16, 2008, 15 days before intervener  
15 testimony is due to be filed. In that filing, the Companies provided what they believe  
16 brought them into compliance with the initial rules as outlined in the PUCO's September  
17 17, 2008, Order. This information filed on October 16, 2008,<sup>18</sup> contains proforma or  
18 projected forecasts of the resulting impacts of the Companies ESP on its financial  
19 earnings for the term of the respective ESPs. As such, several key pieces of information  
20 related to what the overall financial impact of the ESP will have on the earnings of the

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<sup>17</sup> See PUCO Order dated September 17, 2008.

<sup>18</sup> For ease of reference I have included the Company's October 16, 2008, filing as Exhibit MJM-2.

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1 Companies was available for discovery, analysis and review 15 days prior to the  
2 submission of testimony.

3 **Q. WERE YOU ABLE TO ANALYZE THESE PROFORMA STATEMENTS?**

4 **A.** No, not in any meaningful sense. Time and the level of effort needed to review the  
5 discovery already submitted in the proceeding along with preparing my direct testimony  
6 in this case did not permit sufficient time to conduct a detailed analyses of these  
7 statements. Considering that discovery turnaround is generally 5-7 days, this left little if  
8 any time for the intervenor parties, excluding Staff<sup>19</sup> to review this important information.

9 **Q. WHAT IS YOUR MAJOR CONCERN REGARDING THIS FILING?**

10 **A.** I am concerned that OHA is being rushed to judgment on what its position should be on  
11 the reasonableness and accuracy of the filing that the Companies have made in their  
12 respective ESP's. I have described the magnitude of the proposed that all of the  
13 Companies' customers, including OHA, will face if the ESP plan is approved. While I  
14 understand the need for the actions that the Ohio Legislature and the PUCO have taken is  
15 primarily driven by the expiration of the rate stabilization plans adopted in 2004 at the  
16 end of 2008, I believe the hospitals are being rushed to fully evaluate the underlying data,  
17 assumptions, increases and resulting impact on their costs. I suspect that other parties  
18 may also feel this way.

19 **Q. CAN YOU EXPLAIN THIS CONCERN?**

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<sup>19</sup> Staff will file its testimony on November 7, 2008 – one week after all other interveners.

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1    A.    Let me provide a concrete example. Mr. David M. Roush Direct Testimony contains an  
2           exhibit DMR-1 that I have referenced earlier as it relates to the dollar value of the various  
3           costs and related increases the Companies are seeking to implement in their respective  
4           ESPs. This exhibit shows as its starting point the "current rates" column with amounts  
5           (presumed to be revenues) of \$1,778,632,738 for CSPC and \$1,726,034,005 for OPC.  
6           From this column, all of the increases that I discussed above are applied for 2009 through  
7           2011. The column is broken down into major components including FAC, Non-FAC  
8           Components, POLR, Distribution, Energy Efficiency and Peak Demand Reductions,  
9           Transmission Cost recovery and Other. Mr. Roush does not mention in his testimony  
10          where the starting column comes from except to say, "Exhibit DMR-1 summarizes each  
11          component of each Company's request based upon information provided to me by  
12          Companies' witnesses."<sup>20</sup> I could not find where any of the Companies' witness  
13          provided the source of this "current rates" column in their testimony. However, in  
14          reviewing the Companies' reply to Staff Data Request No. 10, I found Staff had  
15          requested tie-in to the basis of these amounts shown in the "current rates" column on  
16          DMR-1. Staff request that the Company provide an "update of the Ballpark February  
17          2008 Realization". The Companies response shows the functionalized (generation,  
18          transmission and distribution) revenues by customer classes (residential, commercial,  
19          industrial and other).<sup>21</sup> I determined that the information included on DMR-1 as a  
20          starting point for the Companies' proposed increase under the "current rates" column is  
21          based on what appears to be a class cost of service analysis (Staff Request No. 10).

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<sup>20</sup> Direct testimony of David M. Roush, Page 3, lines 21 and 22.



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1    **Q.    WHY IS THIS A CONCERN?**

2    **A.**    Since these ESP's are dealing with increases in distribution rates and others that all  
3           customers, including OHA, will be expected to pay, the Companies should be required to  
4           provide that level of detail to show that these costs are reasonable and prudent. Since  
5           these figures represent a 2008 "ballpark" projection, the underlying basis (i.e., the actual  
6           costs) should be reviewed for reasonableness, prudence, accuracy, and appropriateness  
7           for a distribution electric utility.

8    **Q.    WHAT ARE YOU SUGGESTING?**

9    **A.**    According to AEP's filing, the Companies will have these rates in effect during the three  
10          year term of the ESP. As such, they will not be required to file a traditional base rate  
11          case under these plans. That being the case, there is no way to review whether the  
12          starting point, that is, "current rates" are true, reasonable, prudent, or appropriate. It is a  
13          disservice to the customers, including OHA, to rush this proceeding without a thorough  
14          and complete review of the starting point rates that are currently in effect. It is my non-  
15          legal understanding that Ohio Revised Code Section 4928.143(C)(1) requires the  
16          Commission to approve AEP-Ohio's ESP application is "more favorable in the aggregate  
17          as compared to the expected results that would otherwise apply" under an MRO. If the  
18          Commission is unable to make this finding, it must disapprove the application. Given the  
19          state of the evidence provided thus far, it does not appear possible for the Commission to  
20          approve this application.

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<sup>21</sup> MJM-3 Companies response to Staff Data Request 10.

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1    **Q.    DO YOU HAVE ANY EVIDENCE TO SUGGEST THAT THESE CURRENT**  
2           **RATE REVENUES AS SHOWN ON DMR-1 ARE INACCURATE OR NOT**  
3           **REFLECT OF THE COMPANY'S TRUE COSTS?**

4    **A.    The compressed schedule and presentation of key data less than two weeks from when**  
5           **testimony was due did not permit such evaluation. In fact, early on in this proceeding**  
6           **(i.e., a little over six weeks ago), the Companies were objecting to providing any**  
7           **information that could possibly result in even a part of the assessment. For example, in**  
8           **response to OEG 1-16, where the Companies were asked to provide historical 2007 and**  
9           **projected 2008 financial income and balance sheet information in FERC Form 1 formats,**  
10          **the Company objected to the request and refused to provide the information.<sup>22</sup> Therefore**  
11          **it was impossible to determine if any of the starting point costs are true, reasonable,**  
12          **prudent, or appropriate.**

13   **Q.    DO YOU HAVE ANY EVIDENCE TO SHOW THAT A REVIEW OF THE**  
14          **STARTING POINT COSTS WOULD BE BENEFICIAL TO CUSTOMERS**  
15          **INCLUDING OHA?**

16   **A.    Yes. Over the past year, my firm has been engaged by the PUCO to conduct financial**  
17          **audits of three distribution gas utilities in the review of their gas base rate filings.<sup>23</sup> In**  
18          **these engagements our primary responsibility was to validate the information,**  
19          **assumptions, calculations, and back up data to these filings. We also reviewed the filing**  
20          **and provide PUCO Staff with any potential adjustments based on our review of the**

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<sup>22</sup> MJM-4 – Company's response to Ohio Energy Group's Data Request 1-16.

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1 accuracy and appropriateness of the costs and expenses included in the filing. We were  
2 also required to visually inspect a sample of the company's plant in service that had been  
3 placed in rate base since the company's last base rate case. We were required to issue a  
4 report which was then released at the same time the PUCO Staff issued its reports on the  
5 respective company's filing.<sup>24</sup> Staff's and Blue Ridge's reviews were thorough and  
6 comprehensive, and were used by the Commission to set distribution rates. These studies  
7 can be downloaded from the Commission's website at the respective case number docket  
8 listings. The rigor of those analyses is not being performed in this instant proceeding.

9 **Q. WERE THERE ANY BENEFITS TO RATEPAYERS FROM THE FINANCIAL**  
10 **AUDITS CONDUCTED IN THOSE PROCEEDINGS?**

11 **A.** Yes. The results of our analyses gave the Commission assurance that the starting points  
12 of the requested increases were accurate and could be relied upon for setting rates.  
13 During the course of our validation analyses, we did uncover errors in financial  
14 information and calculations and disconnects between information contained in the  
15 filings and the back up data supporting that information. The results of this validation  
16 analyses resulted in the companies agreeing to lower their requested revenue requirement  
17 increases by \$1.4 million. This may seem trivial when compared to a \$3 billion potential  
18 increase, but it is important to note that this amount was simply for a validation of the  
19 filing itself and not for the overall combined reductions to rate base or operating

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<sup>23</sup> Duke Energy Ohio, Inc. in Case No. 07-0589-GA-AIR, East Ohio Gas Company (d/b/a. Dominion East Ohio) in Case No. 07-0829-GA-AIR, and Columbia Gas of Ohio, Inc. in Case No. 08-0074-GA-AIR.

<sup>24</sup> The PUCO Staff report dealt with the review of regulatory adjustments, cost of capital, cost of service, depreciation, customer service, rate design and other issues leading to a proposed overall revenue requirement and cost of service.

**Direct Testimony and Exhibits of  
Michael J. McGarry, Sr.**

1 expenses, income, or rate design. In total, the requested amount being granted to these  
2 gas companies is only 55% of the more than \$192.3 million these three gas utilities  
3 sought to increase base rates by in Ohio<sup>25</sup>. Obviously, if a more thorough review of the  
4 ESP proposal were to produce a similar outcome as these gas cases, then reducing the  
5 potential increases over ten years by more \$1 Billion would obviously have substantial  
6 benefits to customers. As noted in Section 4928.143 (C) (1), the burden of proof of the  
7 reasonableness of the information in the filing rests with the distribution utility. In my  
8 opinion, the information presented in this filing including the responses to data requests  
9 especially related to the starting point of the company's rates leaves much of that burden  
10 unanswered.

**Recommendation**

11 **Q. WHAT RECOMMENDATIONS DO YOU BELIEVE THE COMMISSION**  
12 **SHOULD CONSIDER WHEN DETERMINING THE OVERALL RATE IMPACT**  
13 **OF THE COMPANY'S PROPOSED RATE PLAN FOR CUSTOMERS**  
14 **INCLUDING OHA?**

15 **A.** I believe that the Commission should not approve these ESP's for AEP-Ohio and the  
16 Companies until such time that the initial filing, especially the starting point for the  
17 proposed increases, and the basis and assumptions for the proposed increases has been  
18 thoroughly validated and checked for accuracy so that it can be determined whether the  
19 revenues, costs, and expenses are true, reasonable, prudent or appropriate.

---

25

**Direct Testimony and Exhibits of  
Michael J. McGarry, Sr.**

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes.

## **Attachment A - Qualification of Michael J. McGarry, Sr.**

### ***Summary***

Mr. McGarry's professional experience spans twenty-seven years within the private and public sectors. He has conducted over twenty five comprehensive management and operational audits of investor-owned energy and telecommunications utilities. These audits have included comprehensive management audits and/or operational audits on most functions with the utility environment including corporate governance, strategic planning, internal auditing, capital and operating budget process and practices, distribution operations and maintenance, fuel procurement, supply chain management, demand side management, crew operations, affiliates transactions, commodity trading and construction program practices.

### ***Project Management***

Mr. McGarry's experience includes management of multi-discipline teams for a wide range of client engagements, development and implementation of detailed work plans and project schedules. He has analyzed and planned interdivisional resource utilization, supervised, developed and coached interdivisional team members and created numerous executive reports, briefings, and presentations.

### ***Regulatory and Rate Case Management***

Mr. McGarry has worked with clients to manage all aspects of the regulatory and rate case process. He has developed efficient processes to prepare supporting analyses and testimony for submission to the regulatory bodies and interveners. He is a seasoned project manager and has analytical expertise to respond to interrogatories and data requests from all rate case interveners in a timely manner. Mr. McGarry has assisted a number of clients in preparing revenue requirement and cost of service analyses. He has also developed rate structure and billing determinant information analyses, time of day and interruptible rates analyses, fuel and purchased power reports and annual wholesale rates for member cooperatives. He has developed complex revenue requirement models to present alternative positions to a utility's proposed rate request.

### ***Testimony and Witness Preparation***

Mr. McGarry has proffered and /or supported testimony in Colorado, Delaware, Illinois, Maine, Michigan, Maryland, New York and Pennsylvania. These proceedings included testimony involving management decision and prudence impacts, operations and maintenance expenses, capital investments, revenue requirements, project management and others.

### ***Utility Management and Operational Audits***

Mr. McGarry has conducted over twenty five comprehensive management and operational audits of investor-owned energy and telecommunications utilities. These audits have included comprehensive management audits and/or operational audits on most functions with the utility environment including corporate governance, strategic planning, internal auditing, capital and operating budget process and practices, distribution operations and maintenance, fuel procurement, supply chain management, demand side management, crew operations, affiliates transactions, commodity trading and construction program practices.

### ***Restructuring, Unbundling, and Cost Allocation***

Mr. McGarry has developed the supporting analyses and regulatory filing requirements needed to support unbundling rates for utilities. This has included detailed studies where the company's plant-in-service and depreciation reserve was allocated to each unbundled function. He has assessed utility management actions to prepare the company for competition, including the processes and practices used by the utility to prepare to enter new markets and offer new services.

## **Education**

Potsdam College, B.A., Economics, 1981

University at Buffalo School of Management, MBA, 1996

## **Regulatory Experience**

### **Before the District of Columbia Public Service Commission**

Formal Case No. 1053 - *Technical consultant for the Commission in the matter of Potomac Electric Power Company's request for a \$50.4 million increase in base rates.*

Project Manager: Provide technical expertise to Commission in evaluating the Company's rate case filing. If accepted by the Commission, proposed adjustments will reduce the allowed increase by more than 50%.

Case No. 1032 *In the Matter of the Investigation into Potomac Electric Power Company's Distribution Service Rates*

On Behalf of the DCPSC, January 2005-March 2005

Project Manager and Consultant to Commission and Staff. Review and evaluation of Potomac Electric Power Company compliance filings for class cost of service and revenue requirements for distribution service pursuant to a settlement approved in May 2002. Provided analysis and recommended adjustments to Staff on 23 designated issues and 13 Company proposed adjustments. Proceeding was settled in anticipation of a full rate case for rates to be effective August 8, 2007.

Case No. 1016 *In the Matter of the Application of Washington Gas Light Company, District of Columbia Division, for Authority to Increase Existing Rates and Charges for Gas Service*

On Behalf of the DCPSC, June 2003-December 2003

Project Manager and Consultant to Commissioners and Staff. Project Manager for the analysis of WGL's rate filings. Provided analysis and recommended adjustments to the DCPSC Staff on WGL's proposed increase to base rates. Advised the Commission during deliberations on party positions and possible recommendations.

### **Before the Delaware Public Service Commission**

Docket No. 07-239F *On behalf of the Staff of the Delaware Public Service Commission in the matter of the application Delmarva Power & Light Company for approval of modifications to its gas cost rates.* Project Manager. Oversaw a review of Delmarva Power and Light's gas hedging program.

Docket No. 06-287 *On behalf of the Staff of the Delaware Public Service Commission in the matter of Chesapeake Gas Corporation's implementation of a Gas Hedging program.*

Project Manager. Provided industry expertise and suggestions to the Commission on a proposal plan to implement a gas hedging procurement program at the Company.

Docket No. 06-284 *On behalf of the Staff of the Delaware Public Service Commission in the matter of Delmarva Power and Light Company's request for a \$15 million increase in gas base rates.*

Project Manager and testifying witness. Provide expert testimony on several rate base and revenue requirement issues. Recommended Commission reduce proposed rate increase request to \$8.4 million (56%).

### **Before the Illinois Commerce Commission**

Case: 05-0597 *On behalf of the Illinois Citizens Utility Board, Cook County States Attorney's Office and City of Chicago*

Project Manager and Testifying Witness. Provided analysis and recommended adjustments in the general rate increase of 20.1% or \$320 million filed by ComEd.

Consultant to Illinois Power Company. Conducted mandated compliance filing to un-bundle utility's rate tariffs. Prepared filing requirements and all support schedules analysis to justify allocation of generation, transmission and distribution. Prepared testimony on behalf of the Company's Controller.

Consultant to Illinois Power Company. Prepared 2001 required update filing for the Illinois Commerce Commission compliance filing to un-bundle utility's rate tariffs. Prepared filing requirements and all support schedules analysis to justify allocation of generation, transmission and distribution. Prepared testimony on behalf of the Company's Controller.

**Before the Maryland Public Service Commission**

***Case Nos. 9092/9093 On behalf of the Staff of the Commission in Base Rate Proceeding for Potomac Electric Power Company – Phase II***

Project Manager and testifying witness. Provided expert testimony on the appropriateness of allocations of affiliate related and service company costs. Recommended Commission disallow certain reallocations adjustments and that a management audit be conducted on costs incurred by PEPCO Service Company. Commission adopted both recommendations.

***Case No 9092 On behalf of the Staff of the Commission in Base Rate Proceeding for Potomac Electric Power Company***

Project Manager. Reviewed and analyzed company's base increase request and all pro formas, adjustments to test year revenue requirement and supported witness testimony. Commission approved less than 20% of Company's original request.

**Before the Michigan Public Service Commission**

***Case No. U-15244 On behalf of the Attorney General of the State of Michigan in Base Rate Proceeding for Detroit Edison***

Project Manager and testifying witness. Provided analysis, recommended adjustments and filed testimony for the Michigan Attorney General on Detroit Edison's proposed increase to base rates.

***Case No. U-15320 In the matter of the application of Midland Cogeneration Venture Limited Partnership for the Commission to eliminate the "availability caps" which limit Consumers Energy Company's recovery of capacity payments with respect to its power purchase agreement with Midland Cogeneration Venture Limited Partnership.*** Project Manager. Oversaw project to provide industry expertise to evaluate issue in case and recommend alternative arguments.

***Case No. U-15245 In the matter of the application of Consumers Energy Company for authority to increase its rates for the distribution of natural gas and for other relief.***

Project Manager and testifying witness. Provided expert testimony on partial and interim rate relief, Consumers' decision to acquire Zeeland Power Company from Broadway Gen Funding, LLC. Provided testimony in permanent phase to reduce company's net operating income to more closely reflect the expected costs in 2008.

***Case No U-15190 On behalf of the Attorney General of the State of Michigan in Base Rate Proceeding for Consumer's Energy***

Project Manager. Reviewed the revenue decoupling proposal and supported the witness testimony.



Case No U-15040 *On behalf of the Attorney General of the State of Michigan in Gas Cost Recovery 2007/08 Plan proceeding*

Project Manager and Testifying Witness. Reviewed gas cost recovery plan requirements and provided analysis of the potential benefits of gas procurement hedging program.

Case No. U-15001 *On behalf of the Attorney General of the State of Michigan in Power Supply Cost Recovery 2007/08 Plan proceeding*

Project Manager and Testifying Witness. Reviewed power supply cost recovery plan requirements and testified to appropriateness of specific components of that factor.

Case No. U-14701-R *On behalf of the Attorney General of the State of Michigan in Power Supply Cost Recovery 2006/07 reconciliation proceeding*

Project Manager and Testifying Witness. Reviewed power supply cost recovery reconciliation.

Case No. U-14547 *In the matter of the application of Consumer Energy Company for authority to increase rates for the distribution of natural gas and for other relief*

Expert Witness and Project Manager. Provided analysis, recommended adjustments and filed testimony for the Michigan Attorney General on Consumers Energy proposed increase to base rates.

Before the Nova Scotia Utility and Review Board

Case No. P-888 *On behalf of the Consumer Advocate of the Province of Nova Scotia in the base rate proceeding of Nova Scotia Power*

Testifying witness. Provided an expert testimony on the impact of implementing cost efficient recommendations made by the NSURB's independent consultant in a management audit of Nova Scotia Power.

Case No. P-886 *On behalf of the Consumer Advocate of the Province of Nova Scotia in the base rate proceeding of Nova Scotia Power*

Project Manager and testifying witness. Provided an evaluation of a management audit of Nova Scotia Power and that report's usefulness to assess the Company's management performance and operational efficiency within the context of that proceeding.

Before the Public Utilities Commission of Ohio

Case No. 07-0589-GA-AIR *On behalf of the Staff of Ohio Public Utilities Commission in the matter of the Application of Duke Energy Ohio, Inc., for an increase in Gas Rates.* Project Manager. Oversaw multi-discipline team of accountants, auditors, engineers and analyst to conduct a comprehensive rate case audit of Duke Energy – Ohio's gas rate filing. Primary goal of project was to validate information in filing, provide findings conclusions and recommendations concerning the reliability of information and data in the filing and support Staff in its evaluation of the reasonableness of the filing.

Case No. 07-551-EL-UNC *On behalf of the Ohio Schools Council in the matter of the Application of First Energy Ohio (and its operating companies Ohio Edison, Cleveland Electric and Toledo Edison) for authority to Increase rates for distribution service, modify certain accounting practices and for tariff approval.* Project Manager. Hired by Ohio Schools Council's attorney for utility matters (Bricker and Eckler, LLP) to provide industry expertise in reviewing First Energy's application with respect to cost of service and rate design and the resulting impact on Council's member school systems energy costs.

Case No. 06-986-EL-UNC *On behalf of the City of Cincinnati in the matter of the Application of Duke Energy Ohio, Inc., to modify its market-based Standard service over.* Project Manager.

Hired by City of Cincinnati's Water and Sewer District attorney for utility matters (Bricker and Eckler, LLP) to provide industry expertise in reviewing Duke Energy Ohio's proposal and impact on City's project energy costs.

Oregon Public Utilities Commission

Docket No. UP205 *Examination of NW Natural's Rate Base and Affiliated Interests Issues*  
Co-sponsored between NW Natural, Staff, Northwest Industrial Gas Users, Citizens Utility Board. August 2005-January 2006

Project Manager. Led a team that conducted a management audit of NW Natural Gas that included an evaluation of rate base issues for Financial Instruments (gas and financial hedging) Deferred Taxes, Tax Credits, Cost for a Distribution System, Security Issuance Costs and AFUDC calculations as well as Affiliate Transactions for Cost Allocations and Transfer Pricing, Labor Loading, Segregation of Regulated Rate Base and Subsidiary Investments and Properties, and validation of tax paid from / to affiliates are proper. Audit was to ensure Company compliance with orders, rules and regulations of the OPUC, with Company policy and with Generally Accepted Accounting Principles.

Before Maine Public Utilities Commission

Case No 2004-813 *Maine Public Utilities Commission Investigation into Maintenance and Replacement Program for Northern Utilities Inc.'s Cast Iron Facilities*

On behalf of Maine Public Advocate

Project Manager and Testifying Witness. Litigated proceeding and led a consultant team to assist the State of Maine Public Advocate to investigate the need for the program and the company's management of the repair or replacement of its cast iron facilities.

Before the Public Utilities Commission of the State of Colorado

Docket No. 04A-050E *Review of the Electric Commodity Trading Operations of Public Service Company of Colorado*

On behalf of the COPUC Staff, March 2004-September 2004

Project Manager. Focused operational audit within the bounds of a litigated proceeding to determine if ratepayers were subsidizing or negatively impacted by PSCo's energy trading function.

South Carolina State Senator

Advised Senator on regulatory process for requesting States Public Service Commission for a comprehensive review of Duke Power Company's storm and restoration and right of way management. Reviewed and advised Senator of results of report finding.

Before the Missouri Public Service Commission

Consultant to Ameren UE. Conducted revenue requirement analysis in preparation of Missouri Public Service Commission compliance filing to un-bundle utility's rate tariffs. Prepared the filing requirements and all support schedules analysis to justify allocations of generation, transmission and distribution.

Southern Connecticut Gas

Consultant. As part of a team that conducted a comprehensive management audit of the management and operations of the Company, completed the capital budgeting area of the audit.

Before the New York Public Service Commission

Case: 94-C-0657

Commission Staff. Proceeding to evaluate the compliance of NYNEX with Commission rules and orders related to operational support system costs to competitors. Part of staff panel to facilitate

discussion between company and potential competitors (i.e., users of operational support systems) and report back to Commission.

Focused review of the preparedness of RG&E and ConEd for competition in the electric industry. Evaluated all aspects of the company's management actions to prepare for competition including strategic planning, goals and objectives and senior management's attention to the company operations in a de-regulated industry

Case: 97-M-0567

Commission Staff. Litigated proceeding to determine the benefits of a proposed merger of LILCO / Brooklyn Union Gas. Analyzed the proposed synergy savings.

Case: 96-E-0132 *Show Cause Proceeding Regarding Rate Relief for Ratepayers of Long Island Lighting Company*

Commission Staff and Testifying Witness. Litigated proceeding where Staff proffered testimony containing a benchmark study showing that Long Island Lighting Company's operations and maintenance expenses were excessive compared to a peer group of 24 utilities. Panel testimony concerning the findings and conclusions resulting from the benchmark study.

Case: 96-M-0858 *Prudence Investigation into the Scrap Handling Practices in the Western Division of Niagara Mohawk Power Company*

Commission Staff and Testifying Witness. Litigated proceeding as a result of allegations of bribery and corruption in company practices related to a specific vendor who purchased company scrap metal. Lead team of 10 staff examiners to quantify the extent to which the Company paid excessive rates to this vendor. Testified to the findings of the analysis. Case settled with ratepayers receiving a credit to bills

Case: 91-C-0613 *Operational Audit of the Outside Plant Construction and Rehabilitation Program of New York Telephone Company*

Commission Staff. Comprehensive operational audit of the company's management and implementation of a \$150 million capital program to rehabilitate the outside plant distribution network. Served as Staff Examiner responsible for crew supervision, goals monitoring, contractor oversight, and report preparation.

Case: 91-W-0583 *Prudence Proceeding Regarding the Operations and Management of Jamaica Water*

Commission Staff and Testifying Witness. Litigated proceeding as a result of audit to determine extent to which management inattention and inappropriate practices resulted in excessive costs to rate payers. Testified on a Staff panel to the excessive costs associated with management's inattention to sound business practices related to the design, purchase and installation of the Company customer information system.

Case: 92-W-0030 *Operational Audit of Jamaica Water Company Operations and Management*

Commission Staff. Comprehensive management audit of company operations. Responsible for work plan development, and specific topics areas including engineering, contracting, and information technology. Findings led to prudence proceeding.

Case: 92-M-0973 *Management Audit of Rochester Gas and Electric*

Commission Staff. Comprehensive management audit of company operations. Responsible for work plan development, supervision of staff and specific topics areas including purchasing and internal controls.

**Case: 93-E-0918 *Operational Audit of the Demand Side Management Function at Rochester Gas and Electric***

Commission Staff. Comprehensive operational audit of the demand side management function including program planning, management and energy savings verification. Developed and supervised the implementation of the work plan.

**Case: 88005 *Operational Audit of the Materials and Supply Function at National Fuel Gas***  
Commission Staff. Comprehensive operational audit of the materials and supplies function including warehouse operations, inventory control and procurement. Developed and implemented the work plan for this project.

***Operational Audit of the Fuel Procurement and Contracting of Long Island Lighting Company***  
Commission Staff. Comprehensive operational audit to determine effectiveness of ratepayer funds spent on non-nuclear fuel. Provided research and data evaluation expertise to the project.

***Operational Audit of the Fuel Procurement and Contracting of Consolidated Edison Company of New York***

Commission Staff. Comprehensive operational audit to determine effectiveness of ratepayer funds spent on non-nuclear fuel. Provided research and data evaluation expertise to the project

**Case: 90007 *Operational Audit of the Fuel Procurement and Contracting of Central Hudson Gas and Electric***

Commission Staff. Comprehensive operational audit to determine effectiveness of ratepayer funds spent on non-nuclear fuel. Provided research and data evaluation expertise to the project

***Operational Audit of the Fuel Procurement and Contracting of Orange and Rockland Utilities***  
Commission Staff. Comprehensive operational audit to determine effectiveness of ratepayer funds spent on non-nuclear fuel. Provided research and data evaluation expertise to the project

***Operational Audit of the Fuel Procurement and Contracting of Rochester Gas and Electric***  
Commission Staff. Comprehensive operational audit to determine effectiveness of ratepayer funds spent on nuclear fuel. Provided research and data evaluation expertise to the project

**Case: 98-E-115 *Prudence Proceeding to Investigate the Construction Costs Associated with the Homer City Coal Cleaning Plant***

Commission Staff and Testifying Witness. Litigated proceeding as a result of audit to determine extent to which management inattention and inappropriate practices resulted in excessive construction charges related to the Homer City Coal Cleaning Plant. Testified on a Staff panel to the fuel price differential costs resulting from the failure of the coal cleaning plant to function as designed as well as surrebuttal testimony on the cost of a flu-gas de-sulfurization plant and ancillary equipment and facilities. Case settled with customers receiving \$125 million credit.

**Case: 87003 *Operational Audit of the Homer City Coal Cleaning Plant***

Commission Staff. Comprehensive operational audit to determine effectiveness of ratepayer funds spent on the construction of the Homer City Coal Cleaning Plant jointly owned by NYSEG and Penelec. Responsible for fuel and construction costs analysis, benchmarking costs and alternative methods for meeting EPA Clean air restrictions, contracting practices and report preparation.

**Case: 87003 *Operational Audit of the Fuel Procurement and Contracting of New York State Electric and Gas***

Commission Staff. Comprehensive operational audit to determine effectiveness of ratepayer funds spent on non-nuclear fuel. Responsible for fuel cost analysis, benchmarking costs, contracting practices and report preparation.

*Case: 86007 Operational Audit of the Field Crew Supervision and Utilization of New York State Electric and Gas Company*

Commission Staff. Comprehensive operational audit to determine effectiveness of field crew utilization and supervision. Staff examiner responsible for verifying supervisor activities, reporting, goals attainment and report preparation.

*Case: 86005 Prudence Proceeding to Investigate the Fuel Procurement and Contracting Practices at Niagara Mohawk Power Company*

Commission Staff. Litigated proceeding as a result of audit to determine extent to which management inattention and inappropriate practices resulted in excessive fuel charges to customers. Responsible for fuel cost analysis and benchmarking costs, contracting practices and testimony preparation. Case settled with customers receiving \$66 million credit.

*Case: 86005 Operational Audit of the Fuel Procurement and Contracting of Niagara Mohawk Power Company.*

Commission Staff. Comprehensive operational audit to determine effectiveness of ratepayer funds spent on non-nuclear fuel. Responsible for fuel cost analysis and benchmarking costs, contracting practices and report preparation.

*Case: 85001 Operational Audit of the Research and Development Function of Consolidated Edison Company of New York*

Commission Staff. Comprehensive operational audit to determine effectiveness of ratepayer funds spent on R&D activities. Staff examiner on the project responsible for reviewing projects documentation and control, outside contracting a report preparation.

Ohio Hospitals Association  
Case Nos. 08-917-EL-SSO and 08-918-EL-SSO  
Electric Service Plan Applications - AEP-Ohio on behalf of Columbus Southern Power Company and Ohio Power Company  
Summary of Proposed Increases

Line no.	Description (A)	Source (B)	2008 (C)	2010 (D)	2011 (E)	2012-2018 (F)	Total Proposed Increases (F)	Percent Increase over Current Rates (G)
1	ESP Proposed Increases	DMR-1	\$462,942,835	\$595,141,436	\$684,412,652		\$1,742,486,923	57.0%
2	Deferred FCA Expense - CSPC	LVA-1	\$112,000,000				\$ 112,000,000	
3	Deferred Carrying Charges - CSPC	LVA-1	\$8,200,000	\$13,200,000	\$14,700,000	\$85,300,000	\$ 99,400,000	
4	Deferred FCA Expense - OPC	LVA-1	\$300,000,000	\$139,000,000			\$ 439,000,000	
5	Deferred Carrying Charges - OPC	LVA-1	\$16,700,000	\$43,100,000	\$55,600,000	\$246,400,000	\$ 361,800,000	
6	Amortization of Regulatory Assets - CSPC	LVA-2			\$15,100,000	\$ 105,400,000	\$ 120,500,000	
7	Deferred Carrying Charge on Regulatory Assets - CSPC	LVA-2			\$12,700,000	\$ 49,200,000	\$ 61,900,000	
8	Amortization of Regulatory Assets - OPC	LVA-2			\$10,000,000	\$ 70,300,000	\$ 80,300,000	
9	Deferred Carrying Charge on Regulatory Assets - OPC	LVA-2			\$8,500,000	\$ 32,800,000	\$ 41,300,000	
10	Total: Proposed increases and deferred charges		\$897,842,835	\$780,441,436	\$801,012,652	\$568,400,000	\$3,058,696,923	



Legal Department

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American Electric Power  
1 Riverside Plaza  
Columbus OH 43215-2373  
AEP.com

October 16, 2008

The Honorable Greta See  
The Honorable Kimberly Bojko  
Attorney Examiners  
Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus, Ohio 43215

Steven T. Nourse  
Senior Counsel -  
Regulatory Services  
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**Re: *In the Matter of the Applications of  
Columbus Southern Power Co. and Ohio  
Power Co., Case Nos. 08-917-EL-SSO and  
08-918-EL-SSO***

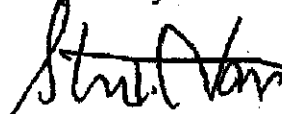
Dear Examiners:

With its July 31, 2008 applications, Columbus Southern Power Company and Ohio Power Company ("AEP Ohio" or the "Companies") filed a motion for waivers relating to then-proposed rules concerning SSO filing requirements that were being considered for adoption by the Commission in Case No. 08-777-EL-ORD. On September 17, 2008, the PUCO issued a Finding and Order initially adopting rules that, when ultimately effective, will govern MRO and ESP applications. On September 19, 2008, the Attorney Examiner issued an Entry in these proceedings that denied the Companies' waiver requests and directed AEP Ohio (in paragraph 5) to file additional information encompassed by the tentative rules. The Attorney Examiner issued a subsequent Entry on September 23, 2008 which directed the Staff and AEP Ohio to establish a reasonable timeline for submitting the financial information and descriptions necessary to supplement AEP Ohio's SSO filings.

In response to those Entries and after reviewing the tentative rules, AEP Ohio personnel met with the Commission's Staff to establish what additional information needed to be filed in order to ensure that AEP Ohio's applications substantially comply with the rules, when ultimately effective, concerning SSO filing requirements. As a result of those discussions, it was determined that the enclosed information brings AEP Ohio's applications into substantial compliance with the tentative rules. Accordingly, AEP Ohio requests that the Commission make a determination, in accordance with Section 4928.143(A), Ohio Revised Code, that AEP Ohio has timely conformed its application to the tentative rules.

Thank you for your attention to this matter

Respectfully Submitted,



Steven T. Nourse  
Senior Attorney  
AEP Service Corporation  
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Columbus, Ohio 43215  
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E-mail: [stnourse@aep.com](mailto:stnourse@aep.com)

cc: Parties of record



**Fuel Procurement, AEP Ohio Generation Units, and Other Fuel Related Information****a. General Fuel Requirements**

The generating units of CSP and OPCO (AEP Ohio) and the other AEP System-East Zone operating companies, which are predominantly coal-fired, are managed to ensure adequate fuel supplies to meet normal burn requirements in both the short-term and the long-term. American Electric Power Service Corporation (AEPSC), acting as agent for AEP Ohio, is responsible for the procurement and delivery of fuel and chemicals used for environmental compliance (consumables) to AEP Ohio's generating stations. AEPSC's primary objective is to assure a continuous supply of quality fuel at the lowest cost reasonably possible. Deliveries are arranged so that sufficient fuel and consumables are available at all times. The quality of the delivered coal is fundamental to achieving and maintaining compliance with the applicable environmental limitations and operating efficiencies. AEP Ohio proposes to pass any net gains on the sale of emission allowances through the FAC. AEP does not have a practice of re-selling coal contracts, however, if it did so it would pass any cost savings or profits related to Ohio generating resources through the FAC.

**b. Coal and Gas Procurement Process**

Coal delivery requirements are determined by taking into account existing coal inventory, forecasted coal consumption, and adjustments for contingencies that necessitate an increase or decrease in coal inventory levels. Sources of coal are determined by taking into account contractual obligations and existing sources of supply. AEP Ohio's total coal requirements are met using a portfolio of long-term arrangements, and spot-market purchases. Long-term contracts support a relatively stable and consistent supply of coal. Spot purchases are used to provide flexibility in scheduling

**Fuel Procurement, AEP Ohio Generation Units, and Other Fuel Related Information**

contract deliveries, to accommodate changing demand, and to cover shortfalls in deliveries caused by force majeure and other unforeseeable or unexpected circumstances. Occasionally, spot purchases are also made to test-burn any promising and potential new long-term sources of coal in order to determine their acceptability as a fuel source in a given power plant's generating units.

All long-term and most spot purchases of coal for AEP Ohio's plants are made based on the evaluation of competitive bids. Additional short term purchases are made based on an evaluation of offers (both solicited and unsolicited) from suppliers compared to current published market prices as well as other offers for tonnage of acceptable quality. In all cases, the goal is securing the lowest reasonable delivered price on a cents per million BTU-basis.

AEP-Ohio's day-to-day needs for natural gas are generally unpredictable and are generally purchased on a day-ahead and intra-day basis as needed for peaking requirements. Natural gas is competitively purchased and primarily obtained in the spot market with prices on a daily index or a daily fixed price. The Company has arranged for both firm and interruptible transportation service from various inter-state pipelines, which provide flexible supplies from multiple production areas.

**c. Inventory**

AEP Ohio attempts to maintain in storage at each plant an adequate coal and consumables supply to meet normal burn requirements. However, in situations where coal supplies fall below prescribed minimum levels, the Company attempts to conserve coal supplies. In the event of a severe coal shortage, AEP Ohio and the AEP System-East

**Fuel Procurement, AEP Ohio Generation Units, and Other Fuel Related  
Information**

*Zone operating companies would implement procedures for the orderly reduction of the consumption of electricity, in accordance with the Emergency Operating Plan.*

**d. Units**

The generating units that AEP Ohio owns are included in the table below. The table also lists major environmental equipment that has been added to the units: Flue Gas Desulfurization (FGD) for the control of SO<sub>2</sub> emissions, and Selective Catalytic Reduction (SCR) for the control of NO<sub>x</sub> emissions. The costs associated with these units are included in the FAC for 2009 as set out in the Company's testimony in its ESP filing.

# AEP Ohio ESP

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## Fuel Procurement, AEP Ohio Generation Units, and Other Fuel Related Information

### AEP Ohio Existing Generation Capacity as of June 1, 2008

Plant Name	Unit No.	In-Service Date	Mode of Operation	Fuel Type	SCR	FGD	FGD Upgr
<b>CSP</b>							
Beckjord	6	1969	Base	Coal	--	2012	--
Conesville	3	1962	Base	Coal	--	--	--
Conesville	4	1973	Base	Coal	2009	2009	--
Conesville	5	1976	Base	Coal	2014	1976	--
Conesville	6	1978	Base	Coal	2014	1978	2008
Picway	5	1955	Base	Coal	--	--	--
Stuart	1	1971	Base	Coal	2004	2008	--
Stuart	2	1970	Base	Coal	2004	2008	--
Stuart	3	1972	Base	Coal	2004	2008	--
Stuart	4	1974	Base	Coal	2004	2008	--
Zimmer	1	1991	Base	Coal	2004	1991	2009
Waterford (CC)	1-6	2002 (a)	Intermediate/Pkg	Gas	2002	--	--
Darby (CT)	1-6	2002	Peaking (CT)	Gas	2002	--	--
Stuart Diesel		1969	Peaking	Oil	--	--	--
<b>OPCo</b>							
Amos	3	1973	Base	Coal	2004	2008	--
Cardinal	1	1967	Base	Coal	2004	2008	--
Gavin	1	1974	Base	Coal	2004	1994	2010
Gavin	2	1975	Base	Coal	2004	1994	2010
Kammer	1	1958	Base	Coal	--	--	--
Kammer	2	1958	Base	Coal	--	--	--
Kammer	3	1959	Base	Coal	--	--	--
Mitchell	1	1971	Base	Coal	2007	2007	--
Mitchell	2	1971	Base	Coal	2007	2007	--
Muskingum River	1	1953	Base	Coal	--	--	--
Muskingum River	2	1954	Base	Coal	--	--	--
Muskingum River	3	1957	Base	Coal	--	--	--
Muskingum River	4	1958	Base	Coal	--	--	--
Muskingum River	5	1968	Base	Coal	2005	2015	--
Sporn	2	1950	Base	Coal	--	--	--
Sporn	4	1952	Base	Coal	--	--	--
Sporn	5	1960	Base	Coal	--	--	--
Racine Hydro		1983	Base	Hydro	--	--	--

(a) Acquired in 2005

**Fuel Procurement, AEP Ohio Generation Units, and Other Fuel Related Information**

As a result of the different air emission standards, environmental equipment installed on the units, and differences in the boiler designs, the coal supplies for the various coal units vary in order to match the differing quality requirements of the units.

**e. Purchased Power**

AEP Ohio makes power purchases from affiliates, non-affiliated companies and through the PJM market that will be included in the Companies' proposed FAC. AEP Ohio has contracts to purchase power from OVEC and Buckeye Power generating units, and from its affiliate, American Electric Generating Company's (AEG) Lawrenceburg plant. AEP Ohio also proposes to solicit some of its power requirements through an RFP process to serve Ohio retail load.

**f. AEP Power Pool and PJM**

The 2009 FAC reflects the AEP Ohio generating resources being operated under the AEP Interconnection agreement. AEP is a member of PJM and operates its fleet, including AEP Ohio's generating resources, in accordance with PJM protocols.

**g. Economic Dispatch**

AEP, along with other generators in PJM, "offer(s)" available generating units into the PJM market on a daily basis. PJM performs an economic dispatch for the PJM footprint to meet the load requirements with all available generation. After the end of the month AEP reconstructs, for cost allocation purposes, the economic dispatch for its units based on hourly generating unit output. This reconstruction assigns the generation used for Off-System sales for each hour of the month. The units at the top of the stack, i.e., the

**Fuel Procurement, AEP Ohio Generation Units, and Other Fuel Related  
Information**

more expensive units, are assigned to Off-System Sales resulting in lower generation costs assigned to internal load customers. The 2009 FAC reflects the forecasted cost reconstruction of the AEP generating units.

### **Assumptions Used in the Projected Financial Statements**

- The AEP Interconnection Agreement, the AEP Transmission Agreement and the Interim Allowance Agreement continue
- All current AEP Ohio generation assets and entitlements are maintained through the forecast period.
- Utility Operations sells generation beyond the system internal load requirements into the wholesale market.
- The assumed load forecast is provided below.

<b>GWh</b>		<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>AEP Ohio</b>	<b>Residential</b>	15,380	15,524	15,576
	<b>Commercial</b>	14,967	15,206	15,350
	<b>Industrial</b>	20,150	20,008	19,959
	<b>Other Ultimate</b>	139	139	140
	<b>Total Retail</b>	50,636	50,877	51,025
<b>CSP</b>	<b>Residential</b>	7,702	7,794	7,837
	<b>Commercial</b>	9,011	9,164	9,271
	<b>Industrial</b>	5,753	5,676	5,631
	<b>Other Ultimate</b>	55	55	56
	<b>Total Retail</b>	22,520	22,688	22,796
<b>OPCO</b>	<b>Residential</b>	7,679	7,731	7,738
	<b>Commercial</b>	5,956	6,042	6,079
	<b>Industrial</b>	14,397	14,332	14,328
	<b>Other Ultimate</b>	84	84	84
	<b>Total Retail</b>	28,116	28,189	28,229

- Market purchases were included representing 5%/10%/15% of OPCo and CSP retail load in 2009/2010/2011.
- The AEP east operating companies continue to operate in the PJM ISO.
- The AEP OATT is based upon the formula rate currently under review by FERC.
- Pole attachment revenues in the forecast are based on the trending of actual revenues. No negative adjustment is assumed in pole attachment revenues from the FCC's Notice of Proposed Rulemaking posted on the Federal Register February 2008 due to uncertainty of outcome.
- Long-term interest rates are assumed to be 8% for all new issuances.
- The capital structures of the companies are maintained at approximately 50% debt and 50% equity throughout the forecast period.
- Current depreciation rates were assumed to continue through the forecast period.
- Projections were developed on an individual operating company basis and the combined results are the simple addition of the forecasted results for the two companies.
- The financially significant components of the companies' ESP filings are included in these projections.

**Projected Financial Statements Prepared Consistent with Filing**

Line	<b><u>INCOME STATEMENT</u></b>		
	(\$000)		
(1) Combined AEP Ohio			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
(2) <b>REVENUE</b>			
(3) Sales of Electricity	5,788,122	6,491,099	7,192,142
(4) Other Operating Revenue	140,828	143,725	140,261
(5) Total Revenue	5,938,951	6,634,825	7,332,403
(6) <b>COST OF SALES</b>			
(7) Total Cost of Sales	3,257,043	3,515,574	3,987,969
(8) Gross Margin	2,681,907	3,119,251	3,344,435
(9) <b>OPERATING EXPENSES</b>			
(10) Operations & Maintenance	1,204,992	1,251,829	1,263,890
(11) Taxes Other Than Income	384,421	408,413	426,691
(12) TOTAL OPERATING EXPENSES	1,589,413	1,660,241	1,690,581
(13) Operating Margin/EBITDA	1,092,495	1,459,010	1,653,854
(14) Depreciation & Amortization	499,331	521,261	532,708
(15) Other (Income) / Deductions	(30,780)	(35,323)	(32,018)
(16) EBIT	623,944	973,072	1,153,164
(17) Total Interest Expense	258,077	292,146	299,787
(18) Total Income Taxes	105,527	213,612	271,537
(19) Preferred Stock Dividends	733	733	733
(20) <b>NET INCOME</b>	<b>261,607</b>	<b>466,582</b>	<b>581,107</b>
(21) <b>ROE*</b>	<b>5.7%</b>	<b>9.7%</b>	<b>11.7%</b>

\* Excludes the OSS margin effect on ROE of 4.3% in 2009, 3.1% in 2010 and 3.4% in 2011.



**Projected Financial Statements Prepared Consistent with Filing**

Line	<b><u>BALANCE SHEET</u></b> <b><u>(\$000)</u></b>		
	2009	2010	2011
(1) Combined AEP Ohio			
(2) <b>Assets</b>			
(3) Gross Plant in Service	15,367,843	16,034,981	16,722,637
(4) Construction Work In Progress	209,731	289,115	341,547
(5) Gross Plant in Service	15,577,574	16,324,096	17,064,184
(6) Accumulated Depreciation	5,498,035	5,883,620	6,283,208
(7) Net Utility Plant	10,079,539	10,440,476	10,780,976
(8) Other Property and Investments	492,758	486,183	483,088
(9) Current and Accrued Assets	974,616	978,057	980,531
(10) Unamortized Debt Expense	27,352	24,976	22,962
(11) Unamortized Loss on Reacquired Debt	18,277	18,277	18,277
(12) Regulatory Assets	851,948	1,013,596	1,089,419
(13) Other Net Deferrals	507,059	508,843	509,809
(14) Total Assets	12,951,549	13,470,409	13,885,062
(15) <b>Equity and Liabilities</b>			
(16) Common Stock	4,689,743	4,881,577	5,019,055
(17) Preferred Stock	16,627	16,627	16,627
(18) Other Comprehensive Earnings	(68,994)	(69,152)	(69,309)
(19) Total Equity	4,637,376	4,829,052	4,966,373
(20) Long-Term Debt	4,589,485	4,765,461	4,916,147
(21) Capital Leases	34,311	34,311	34,311
(22) Other Non-Current Liabilities	307,829	307,829	307,829
(23) Short-Term Debt	24,323	38,489	33,798
(24) Other Current and Accrued Liabilities	1,345,237	1,352,997	1,352,232
(25) Deferred Credits	2,012,987	2,142,269	2,274,373
(26) Total Equity and Liabilities	12,951,549	13,470,409	13,885,062
(27) Total Debt/Capital	50.1%	50.0%	50.1%

**Projected Financial Statements Prepared Consistent with Filing**

Line	<b><u>CASH FLOW</u></b> <b>(\$000)</b>		
	2009	2010	2011
(1) <b>Combined AEP Ohio</b>			
(2) <b>Operating Activities</b>			
(3) Balance for Common	261,607	466,582	581,107
(4) <b>Adjustments to Net Income</b>			
(5) Depreciation and Amortization	499,331	521,261	532,708
(6) Deferred Income Tax	90,843	126,662	128,682
(7) Changes in Regulatory Assets	(410,361)	(152,426)	(80,928)
(8) Changes in Working Capital	27,424	7,390	8,201
(9) Other Adjustments to Net Income	418,939	228,279	170,970
(10) <b>Cash From Operations</b>	887,784	1,197,748	1,380,740
(11) <b>Investing Activities</b>			
(12) Construction Expenditures	(894,632)	(839,287)	(827,026)
(13) AFUDC Debt/Capitalized Interest	(22,120)	(19,075)	(20,726)
(14) <b>Cash Used in Investing</b>	(916,752)	(858,362)	(847,751)
(15) <b>Financing Activities</b>			
(16) Issuance of Long-Term Debt	608,714	625,000	150,000
(17) Retirement of Long-Term Debt	(477,500)	(450,000)	
(18) Change in Short-Term Debt	(127,043)	11,653	(10,254)
(19) Equity Contributions	100,000		
(20) Dividends Paid	(75,000)	(525,000)	(650,000)
(21) Other Financing Activity	(733)	(733)	(733)
(22) <b>Cash From Financing Activities</b>	28,438	(339,080)	(510,987)
(23) <b>Total Change in Cash</b>	(530)	306	2,001
(24) <b>Beginning Cash and Cash Equivalents</b>	2,450	1,920	2,226
(25) <b>Ending Cash and Cash Equivalents</b>	1,920	2,226	4,227

**Projected Financial Statements Prepared Consistent with Filing**

Line	<u>INCOME STATEMENT</u>		
	(\$000)		
(1) Ohio Power			
	2009	2010	2011
(2) <b>REVENUE</b>			
(3) Sales of Electricity	3,409,812	3,789,517	4,149,233
(4) Other Operating Revenue	94,104	93,291	88,032
(5) <b>Total Revenue</b>	<u>3,503,916</u>	<u>3,882,807</u>	<u>4,237,264</u>
(6) <b>COST OF SALES</b>			
(7) Total Cost of Sales	2,001,613	2,185,763	2,403,150
(8) <b>Gross Margin</b>	<u>1,502,303</u>	<u>1,697,044</u>	<u>1,834,114</u>
(9) <b>OPERATING EXPENSES</b>			
(10) Operations & Maintenance	704,544	731,361	738,526
(11) Taxes Other Than Income	203,771	213,940	222,706
(12) <b>TOTAL OPERATING EXPENSES</b>	<u>908,315</u>	<u>945,301</u>	<u>959,232</u>
(13) <b>Operating Margin/EBITDA</b>	593,988	751,743	874,882
(14) Depreciation & Amortization	325,502	334,873	341,234
(15) Other (Income) / Deductions	(18,590)	(23,893)	(23,980)
(16) <b>EBIT</b>	<u>287,077</u>	<u>440,763</u>	<u>557,628</u>
(17) Total Interest Expense	173,051	185,840	200,767
(18) Total Income Taxes	27,233	72,994	112,092
(19) Preferred Stock Dividends	733	733	733
(20) <b>NET INCOME</b>	<u>86,060</u>	<u>171,197</u>	<u>244,035</u>

**Projected Financial Statements Prepared Consistent with Filing**

Line	<b>BALANCE SHEET</b>		
	(\$000)		
(1) <b>Ohio Power</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
(2) <b>Assets</b>			
(3) Gross Plant in Service	9,973,181	10,343,694	10,727,978
(4) Construction Work In Progress	90,602	118,368	121,443
(5) Gross Plant In Service	10,063,783	10,462,062	10,849,422
(6) Accumulated Depreciation	3,455,427	3,702,553	3,956,385
(7) Net Utility Plant	6,608,356	6,759,409	6,893,037
(8) Other Property and Investments	325,166	323,380	326,947
(9) Current and Accrued Assets	624,883	630,979	633,679
(10) Unamortized Debt Expense	19,205	17,525	16,064
(11) Unamortized Loss on Reacquired Debt	8,226	8,226	8,226
(12) Regulatory Assets	594,799	818,700	943,160
(13) Other Net Deferrals	332,632	332,632	332,632
(14) <b>Total Assets</b>	<b>8,513,265</b>	<b>8,890,850</b>	<b>9,153,744</b>
(15) <b>Equity and Liabilities</b>			
(16) Common Stock	3,108,267	3,251,491	3,356,817
(17) Preferred Stock	16,627	16,627	16,627
(18) Other Comprehensive Earnings	(44,234)	(44,234)	(44,234)
(19) <b>Total Equity</b>	<b>3,080,661</b>	<b>3,223,884</b>	<b>3,329,210</b>
(20) Long-Term Debt	3,053,361	3,204,009	3,279,408
(21) Capital Leases	27,057	27,057	27,057
(22) Other Non-Current Liabilities	210,377	210,377	210,377
(23) Short-Term Debt	15,970	19,798	21,950
(24) Other Current and Accrued Liabilities	790,348	788,615	782,255
(25) Deferred Credits	1,335,491	1,417,111	1,503,488
(26) <b>Total Equity and Liabilities</b>	<b>8,513,265</b>	<b>8,890,850</b>	<b>9,153,744</b>
(27) <b>Total Debt/Capital</b>	<b>50.1%</b>	<b>50.2%</b>	<b>50.0%</b>

**Projected Financial Statements Prepared Consistent with Filing**

Line	<b>CASH FLOW</b>		
	<b>(\$000)</b>		
(1) Ohio Power			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
(2) Operating Activities			
(3) Balance for Common	86,060	171,197	244,035
(4) Adjustments to Net Income			
(5) Depreciation and Amortization	325,502	334,673	341,234
(6) Deferred Income Tax	50,995	78,415	82,669
(7) Changes in Regulatory Assets	(303,084)	(213,751)	(109,692)
(8) Changes in Working Capital	19,288	6,168	9,562
(9) Other Adjustments to Net Income	270,833	195,215	121,857
(10) Cash From Operations	449,593	571,915	689,665
(11) Investing Activities			
(12) Construction Expenditures	(480,529)	(458,955)	(445,553)
(13) AFUDC Debt/Capitalized Interest	(13,797)	(13,541)	(13,267)
(14) Cash Used in Investing	(494,325)	(472,497)	(458,820)
(15) Financing Activities			
(16) Issuance of Long-Term Debt	516,930	350,000	75,000
(17) Retirement of Long-Term Debt	(477,500)	(200,000)	
(18) Change in Short-Term Debt	(94,397)	1,314	(3,411)
(19) Equity Contributions	100,000		
(20) Dividends Paid		(250,000)	(300,000)
(21) Other Financing Activity	(733)	(733)	(733)
(22) Cash From Financing Activities	44,300	(99,418)	(229,144)
(23) Total Change in Cash	(432)	(0)	1,701
(24) Beginning Cash and Cash Equivalents	432	(0)	(0)
(25) Ending Cash and Cash Equivalents	(0)	(0)	1,701

**Projected Financial Statements Prepared Consistent with Filing**

Line	<b><u>INCOME STATEMENT</u></b>		
	<b>(\$000)</b>		
(1) Columbus Southern Power			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
(2) <b>REVENUE</b>			
(3) Sales of Electricity	2,388,310	2,701,583	3,042,910
(4) Other Operating Revenue	46,724	50,434	52,229
(5) <b>Total Revenue</b>	<u>2,435,034</u>	<u>2,752,017</u>	<u>3,095,139</u>
(6) <b>COST OF SALES</b>			
(7) Total Cost of Sales	1,255,430	1,329,810	1,584,818
(8) <b>Gross Margin</b>	<u>1,179,604</u>	<u>1,422,207</u>	<u>1,510,321</u>
(9) <b>OPERATING EXPENSES</b>			
(10) Operations & Maintenance	500,448	520,468	527,364
(11) Taxes Other Than Income	180,649	194,472	203,985
(12) <b>TOTAL OPERATING EXPENSES</b>	<u>681,098</u>	<u>714,940</u>	<u>731,348</u>
(13) <b>Operating Margin/EBITDA</b>	498,507	707,267	778,972
(14) Depreciation & Amortization	173,830	186,588	191,474
(15) Other (Income) / Deductions	(12,190)	(11,631)	(8,039)
(16) <b>EBIT</b>	<u>336,867</u>	<u>532,309</u>	<u>595,537</u>
(17) Total Interest Expense	83,027	96,307	99,019
(18) Total Income Taxes	78,294	140,617	159,445
(19) Preferred Stock Dividends			
(20) <b>NET INCOME</b>	<u>175,546</u>	<u>295,385</u>	<u>337,073</u>

**Projected Financial Statements Prepared Consistent with Filing**

Line	<b>BALANCE SHEET</b>		
	(\$000)		
(1) <b>Columbus Southern Power</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
(2) <b>Assets</b>			
(3) Gross Plant in Service	5,394,662	5,691,287	5,994,659
(4) Construction Work In Progress	119,128	170,747	220,103
(5) Gross Plant in Service	5,513,791	5,862,034	6,214,762
(6) Accumulated Depreciation	2,042,608	2,180,967	2,326,823
(7) Net Utility Plant	3,471,182	3,681,067	3,887,939
(8) Other Property and Investments	167,593	162,803	156,141
(9) Current and Accrued Assets	349,733	347,079	346,852
(10) Unamortized Debt Expense	8,148	7,451	6,898
(11) Unamortized Loss on Recquired Debt	10,051	10,051	10,051
(12) Regulatory Assets	257,149	194,896	146,259
(13) Other Net Deferrals	174,428	176,211	177,178
(14) Total Assets	4,438,284	4,579,558	4,731,318
(15) <b>Equity and Liabilities</b>			
(16) Common Stock	1,581,476	1,630,086	1,682,238
(17) Preferred Stock			
(18) Other Comprehensive Earnings	(24,760)	(24,918)	(25,075)
(19) Total Equity	1,556,716	1,605,168	1,637,163
(20) Long-Term Debt	1,536,124	1,561,452	1,636,739
(21) Capital Leases	7,255	7,255	7,255
(22) Other Non-Current Liabilities	97,452	97,452	97,452
(23) Short-Term Debt	8,353	18,691	11,848
(24) Other Current and Accrued Liabilities	554,889	564,382	569,977
(25) Deferred Credits	677,496	725,158	770,885
(26) Total Equity and Liabilities	4,438,284	4,579,558	4,731,318
(27) Total Debt/Capital	49.9%	49.7%	50.3%

**Projected Financial Statements Prepared Consistent with Filing**

Line	<b><u>CASH FLOW</u></b> <b><u>(\$000)</u></b>		
	2009	2010	2011
(1) <b>Columbus Southern Power</b>			
(2) <b>Operating Activities</b>			
(3) Balance for Common	175,546	295,385	337,073
(4) <b>Adjustments to Net Income</b>			
(5) Depreciation and Amortization	173,830	186,588	191,474
(6) Deferred Income Tax	39,849	48,246	46,013
(7) Changes in Regulatory Assets	(107,276)	61,325	48,763
(8) Changes in Working Capital	8,136	1,224	(1,361)
(9) Other Adjustments to Net Income	148,106	33,065	49,113
(10) <b>Cash From Operations</b>	438,191	625,833	671,075
(11) <b>Investing Activities</b>			
(12) Construction Expenditures	(414,104)	(380,332)	(381,472)
(13) AFUDC Debt/Capitalized Interest	(8,323)	(5,534)	(7,459)
(14) <b>Cash Used in Investing</b>	(422,427)	(385,866)	(388,931)
(15) <b>Financing Activities</b>			
(16) Issuance of Long-Term Debt	91,784	275,000	75,000
(17) Retirement of Long-Term Debt		(250,000)	
(18) Change in Short-Term Debt	(32,646)	10,338	(6,843)
(19) Equity Contributions			
(20) Dividends Paid	(75,000)	(275,000)	(350,000)
(21) Other Financing Activity			
(22) <b>Cash From Financing Activities</b>	(15,862)	(239,662)	(281,843)
(23) <b>Total Change in Cash</b>	(98)	306	301
(24) <b>Beginning Cash and Cash Equivalents</b>	2,018	1,920	2,226
(25) <b>Ending Cash and Cash Equivalents</b>	1,920	2,226	2,527



**STAFF REQUEST NO. 10**  
**CASE NO. 08-917-EL-SSO & CASE NO. 08-918-EL-SSO**

**MJM-3**  
**Page 1 of 5**

**REQUEST:**

Please provide an update of the Ballpark February 2008 Realizations. See attached spreadsheet for format.

If possible, the revenues and sales in the update should tie to sales and revenues in Roush Exhibits 1-7.

**RESPONSE:**

Please see the Companies' response to Staff Request No. 10-1, Attachment 1. The values differ slightly due to rounding.

Prepared by: D. M. Roush

MJM-3

Revenue Class	Forecasted kWh				2009				2010				2011				2012				2013				2014				2015				2016				2017				2018				2019				2020				2021				2022				2023				2024				2025				2026				2027				2028				2029				2030				2031				2032				2033				2034				2035				2036				2037				2038				2039				2040				2041				2042				2043				2044				2045				2046				2047				2048				2049				2050				2051				2052				2053				2054				2055				2056				2057				2058				2059				2060				2061				2062				2063				2064				2065				2066				2067				2068				2069				2070				2071				2072				2073				2074				2075				2076				2077				2078				2079				2080																																																																																																																																																																																																			
	G & Y	Residential	Commercial	Industrial	Other	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. 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Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income	FAC Increase	Total Generation	Transmission	Distribution	Losses	Total Distribution	D.I. Increase	Non-Fac Income	Fac Income

[illegible]



Tenure Class	Residential	Q-1	Q-2	Q-3	Q-4	Q-5	Q-6	Q-7	Q-8	Q-9	Q-10	Q-11	Q-12	Q-13	Q-14	Q-15	Q-16	Q-17	Q-18	Q-19	Q-20	Q-21	Q-22	Q-23	Q-24	Q-25	Q-26	Q-27	Q-28	Q-29	Q-30	Q-31	Q-32	Q-33	Q-34	Q-35	Q-36	Q-37	Q-38	Q-39	Q-40	Q-41	Q-42	Q-43	Q-44	Q-45	Q-46	Q-47	Q-48	Q-49	Q-50	Q-51	Q-52	Q-53	Q-54	Q-55	Q-56	Q-57	Q-58	Q-59	Q-60	Q-61	Q-62	Q-63	Q-64	Q-65	Q-66	Q-67	Q-68	Q-69	Q-70	Q-71	Q-72	Q-73	Q-74	Q-75	Q-76	Q-77	Q-78	Q-79	Q-80	Q-81	Q-82	Q-83	Q-84	Q-85	Q-86	Q-87	Q-88	Q-89	Q-90	Q-91	Q-92	Q-93	Q-94	Q-95	Q-96	Q-97	Q-98	Q-99	Q-100	Q-101	Q-102	Q-103	Q-104	Q-105	Q-106	Q-107	Q-108	Q-109	Q-110	Q-111	Q-112	Q-113	Q-114	Q-115	Q-116	Q-117	Q-118	Q-119	Q-120	Q-121	Q-122	Q-123	Q-124	Q-125	Q-126	Q-127	Q-128	Q-129	Q-130	Q-131	Q-132	Q-133	Q-134	Q-135	Q-136	Q-137	Q-138	Q-139	Q-140	Q-141	Q-142	Q-143	Q-144	Q-145	Q-146	Q-147	Q-148	Q-149	Q-150	Q-151	Q-152	Q-153	Q-154	Q-155	Q-156	Q-157	Q-158	Q-159	Q-160	Q-161	Q-162	Q-163	Q-164	Q-165	Q-166	Q-167	Q-168	Q-169	Q-170	Q-171	Q-172	Q-173	Q-174	Q-175	Q-176	Q-177	Q-178	Q-179	Q-180	Q-181	Q-182	Q-183	Q-184	Q-185	Q-186	Q-187	Q-188	Q-189	Q-190	Q-191	Q-192	Q-193	Q-194	Q-195	Q-196	Q-197	Q-198	Q-199	Q-200	Q-201	Q-202	Q-203	Q-204	Q-205	Q-206	Q-207	Q-208	Q-209	Q-210	Q-211	Q-212	Q-213	Q-214	Q-215	Q-216	Q-217	Q-218	Q-219	Q-220	Q-221	Q-222	Q-223	Q-224	Q-225	Q-226	Q-227	Q-228	Q-229	Q-230	Q-231	Q-232	Q-233	Q-234	Q-235	Q-236	Q-237	Q-238	Q-239	Q-240	Q-241	Q-242	Q-243	Q-244	Q-245	Q-246	Q-247	Q-248	Q-249	Q-250	Q-251	Q-252	Q-253	Q-254	Q-255	Q-256	Q-257	Q-258	Q-259	Q-260	Q-261	Q-262	Q-263	Q-264	Q-265	Q-266	Q-267	Q-268	Q-269	Q-270	Q-271	Q-272	Q-273	Q-274	Q-275	Q-276	Q-277	Q-278	Q-279	Q-280	Q-281	Q-282	Q-283	Q-284	Q-285	Q-286	Q-287	Q-288	Q-289	Q-290	Q-291	Q-292	Q-293	Q-294	Q-295	Q-296	Q-297	Q-298	Q-299	Q-300	Q-301	Q-302	Q-303	Q-304	Q-305	Q-306	Q-307	Q-308	Q-309	Q-310	Q-311	Q-312	Q-313	Q-314	Q-315	Q-316	Q-317	Q-318	Q-319	Q-320	Q-321	Q-322	Q-323	Q-324	Q-325	Q-326	Q-327	Q-328	Q-329	Q-330	Q-331	Q-332	Q-333	Q-334	Q-335	Q-336	Q-337	Q-338	Q-339	Q-340	Q-341	Q-342	Q-343	Q-344	Q-345	Q-346	Q-347	Q-348	Q-349	Q-350	Q-351	Q-352	Q-353	Q-354	Q-355	Q-356	Q-357	Q-358	Q-359	Q-360	Q-361	Q-362	Q-363	Q-364	Q-365	Q-366	Q-367	Q-368	Q-369	Q-370	Q-371	Q-372	Q-373	Q-374	Q-375	Q-376	Q-377	Q-378	Q-379	Q-380	Q-381	Q-382	Q-383	Q-384	Q-385	Q-386	Q-387	Q-388	Q-389	Q-390	Q-391	Q-392	Q-393	Q-394	Q-395	Q-396	Q-397	Q-398	Q-399	Q-400	Q-401	Q-402	Q-403	Q-404	Q-405	Q-406	Q-407	Q-408	Q-409	Q-410	Q-411	Q-412	Q-413	Q-414	Q-415	Q-416	Q-417	Q-418	Q-419	Q-420	Q-421	Q-422	Q-423	Q-424	Q-425	Q-426	Q-427	Q-428	Q-429	Q-430	Q-431	Q-432	Q-433	Q-434	Q-435	Q-436	Q-437	Q-438	Q-439	Q-440	Q-441	Q-442	Q-443	Q-444	Q-445	Q-446	Q-447	Q-448	Q-449	Q-450	Q-451	Q-452	Q-453	Q-454	Q-455	Q-456	Q-457	Q-458	Q-459	Q-460	Q-461	Q-462	Q-463	Q-464	Q-465	Q-466	Q-467	Q-468	Q-469	Q-470	Q-471	Q-472	Q-473	Q-474	Q-475	Q-476	Q-477	Q-478	Q-479	Q-480	Q-481	Q-482	Q-483	Q-484	Q-485	Q-486	Q-487	Q-488	Q-489	Q-490	Q-491	Q-492	Q-493	Q-494	Q-495	Q-496	Q-497	Q-498	Q-499	Q-500	Q-501	Q-502	Q-503	Q-504	Q-505	Q-506	Q-507	Q-508	Q-509	Q-510	Q-511	Q-512	Q-513	Q-514	Q-515	Q-516	Q-517	Q-518	Q-519	Q-520	Q-521	Q-522	Q-523	Q-524	Q-525	Q-526	Q-527	Q-528	Q-529	Q-530	Q-531	Q-532	Q-533	Q-534	Q-535	Q-536	Q-537	Q-538	Q-539	Q-540	Q-541	Q-542	Q-543	Q-544	Q-545	Q-546	Q-547	Q-548	Q-549	Q-550	Q-551	Q-552	Q-553	Q-554	Q-555	Q-556	Q-557	Q-558	Q-559	Q-560	Q-561	Q-562	Q-563	Q-564	Q-565	Q-566	Q-567	Q-568	Q-569	Q-570	Q-571	Q-572	Q-573	Q-574	Q-575	Q-576	Q-577	Q-578	Q-579	Q-580	Q-581	Q-582	Q-583	Q-584	Q-585	Q-586	Q-587	Q-588	Q-589	Q-590	Q-591	Q-592	Q-593	Q-594	Q-595	Q-596	Q-597	Q-598	Q-599	Q-600	Q-601	Q-602	Q-603	Q-604	Q-605	Q-606	Q-607	Q-608	Q-609	Q-610	Q-611	Q-612	Q-613	Q-614	Q-615	Q-616	Q-617	Q-618	Q-619	Q-620	Q-621	Q-622	Q-623	Q-624	Q-625	Q-626	Q-627	Q-628	Q-629	Q-630	Q-631	Q-632	Q-633	Q-634	Q-635	Q-636	Q-637	Q-638	Q-639	Q-640	Q-641	Q-642	Q-643	Q-644	Q-645	Q-646	Q-647	Q-648	Q-649	Q-650	Q-651	Q-652	Q-653	Q-654	Q-655	Q-656	Q-657	Q-658	Q-659	Q-660	Q-661	Q-662	Q-663	Q-664	Q-665	Q-666	Q-667	Q-668	Q-669	Q-670	Q-671	Q-672	Q-673	Q-674	Q-675	Q-676	Q-677	Q-678	Q-679	Q-680	Q-681	Q-682	Q-683	Q-684	Q-685	Q-686	Q-687	Q-688	Q-689	Q-690	Q-691	Q-692	Q-693	Q-694	Q-695	Q-696	Q-697	Q-698	Q-699	Q-700	Q-701	Q-702	Q-703	Q-704	Q-705	Q-706	Q-707	Q-708	Q-709	Q-710	Q-711	Q-712	Q-713	Q-714	Q-715	Q-716	Q-717	Q-718	Q-719	Q-720	Q-721	Q-722	Q-723	Q-724	Q-725	Q-726	Q-727	Q-728	Q-729	Q-730	Q-731	Q-732	Q-733	Q-734	Q-735	Q-736	Q-737	Q-738	Q-739	Q-740	Q-741	Q-742	Q-743	Q-744	Q-745	Q-746	Q-747	Q-748	Q-749	Q-750	Q-751	Q-752	Q-753	Q-754	Q-755	Q-756	Q-757	Q-758	Q-759	Q-760	Q-761	Q-762	Q-763	Q-764	Q-765	Q-766	Q-767	Q-768	Q-769	Q-770	Q-771	Q-772	Q-773	Q-774	Q-775	Q-776	Q-777	Q-778	Q-779	Q-780	Q-781	Q-782	Q-783	Q-784	Q-785	Q-786	Q-787	Q-788	Q-789	Q-790	Q-791	Q-792	Q-793	Q-794	Q-795	Q-796	Q-797	Q-798	Q-799	Q-800	Q-801	Q-802	Q-803	Q-804	Q-805	Q-806	Q-807	Q-808	Q-809	Q-810	Q-811	Q-812	Q-813	Q-814	Q-815	Q-816	Q-817	Q-818	Q-819	Q-820	Q-821	Q-822	Q-823	Q-824	Q-825	Q-826	Q-827	Q-828	Q-829	Q-830	Q-831	Q-832	Q-833	Q-834	Q-835	Q-836	Q-837	Q-838	Q-839	Q-840	Q-841	Q-842	Q-843	Q-844	Q-845	Q-846	Q-847	Q-848	Q-849	Q-850	Q-851	Q-852	Q-853	Q-854	Q-855	Q-856	Q-857	Q-858	Q-859	Q-860	Q-861	Q-862	Q-863	Q-864	Q-865	Q-866	Q-867	Q-868	Q-869	Q-870	Q-871	Q-872	Q-873	Q-874	Q-875	Q-876	Q-877	Q-878	Q-879	Q-880	Q-881	Q-882	Q-883	Q-884	Q-885	Q-886	Q-887	Q-888	Q-889	Q-890	Q-891	Q-892	Q-893	Q-894	Q-895	Q-896	Q-897	Q-898	Q-899	Q-900	Q-901	Q-902	Q-903	Q-904	Q-905	Q-906	Q-907	Q-908	Q-909	Q-910	Q-911	Q-912	Q-913	Q-914	Q-915	Q-916	Q-917	Q-918	Q-919	Q-920	Q-921	Q-922	Q-923	Q-924	Q-925	Q-926	Q-927	Q-928	Q-929	Q-930	Q-931	Q-932	Q-933	Q-934	Q-935	Q-936	Q-937	Q-938	Q-939	Q-940	Q-941	Q-942	Q-943	Q-944	Q-945	Q-946	Q-947	Q-948	Q-949	Q-950	Q-951	Q-952	Q-953	Q-954	Q-955	Q-956	Q-957	Q-958	Q-959	Q-960	Q-961	Q-962	Q-963	Q-964	Q-965	Q-966	Q-967	Q-968	Q-969	Q-970	Q-971	Q-972	Q-973	Q-974	Q-975	Q-976	Q-977	Q-978	Q-979	Q-980	Q-981	Q-982	Q-983	Q-984	Q-985	Q-986	Q-987	Q-988	Q-989	Q-990	Q-991	Q-992	Q-993	Q-994	Q-995	Q-996	Q-997	Q-998	Q-999	Q-1000	Q-1001	Q-1002	Q-1003	Q-1004	Q-1005	Q-1006	Q-1007	Q-1008	Q-1009	Q-1010	Q-1011	Q-1012	Q-1013	Q-1014	Q-1015	Q-1016	Q-1017	Q-1018	Q-1019	Q-1020	Q-1021	Q-1022	Q-1023	Q-1024	Q-1025	Q-1026	Q-1027	Q-1028	Q-1029	Q-1030	Q-1031	Q-1032	Q-1033	Q-1034	Q-1035	Q-1036	Q-1037	Q-1038	Q-1039	Q-1040	Q-1041	Q-1042	Q-1043	Q-1044	Q-1045	Q-1046	Q-1047	Q-1048	Q-1049	Q-1050	Q-1051	Q-1052	Q-1053	Q-1054	Q-1055	Q-1056	Q-1057	Q-1058	Q-1059	Q-1060	Q-1061	Q-1062	Q-1063	Q-1064	Q-1065	Q-1066	Q-1067	Q-1068	Q-1069	Q-1070	Q-1071	Q-1072	Q-1073	Q-1074	Q-1075	Q-1076	Q-1077	Q-1078	Q-1079	Q-1080	Q-1081	Q-1082	Q-1083	Q-1084	Q-1085	Q-1086	Q-1087	Q-1088	Q-1089	Q-1090	Q-1091	Q-1092	Q-1093	Q-1094	Q-1095	Q-1096	Q-1097	Q-1098	Q-1099	Q-1100	Q-1101	Q-1102	Q-1103	Q-1104	Q-1105	Q-1106	Q-1107	Q-1108	Q-1109	Q-1110	Q-1111	Q-1112	Q-1113	Q-1114	Q-1115	Q-1116	Q-1117	Q-1118	Q-1119	Q-1120	Q-1121	Q-1122	Q-1123	Q-1124	Q-1125	Q-1126	Q-1127	Q-1128	Q-1129	Q-1130	Q-1131	Q-1132	Q-1133	Q-1134	Q-1135	Q-1136	Q-1137	Q-1138	Q-1139	Q-1140	Q-1141	Q-1142	Q-1143	Q-1144	Q-1145	Q-1146	Q-1147	Q-1148	Q-1149	Q-1150	Q-1151	Q-1152	Q-1153	Q-1154	Q-1155	Q-1156	Q-1157	Q-1158	Q-1159	Q-1160	Q-1161	Q-1162	Q-1163	Q-1164	Q-1165	Q-1166	Q-1167	Q-1168	Q-1169	Q-1170	Q-1171	Q-1172	Q-1173	Q-1174	Q-1175	Q-1176	Q-1177	Q-1178	Q-1179	Q-1180	Q-1181	Q-1182	Q-1183	Q-1184	Q-1185	Q-1186	Q-1187	Q-1188	Q-1189	Q-1190	Q-1191	Q-1192	Q-1193	Q-1194	Q-1195	Q-1196	Q-1197	Q-1198	Q-1199	Q-1200	Q-1201	Q-1202	Q-1203	Q-1204	Q-1205	Q-1206	Q-1207	Q-1208	Q-1209	Q-1210	Q-1211	Q-1212	Q-1213
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**AEP OHIO'S RESPONSE TO  
OHIO ENERGY GROUP'S  
DISCOVERY REQUEST  
FIRST SET  
CASE NO. 08-917-EL-SSO  
CASE NO. 08-918-EL-SSO**

**INTERROGATORY REQUEST NO. 16**

- Q16. Division (E) and (F) of section 4928.143 of the Revised Code provide for tests of the ESP with respect to excessive earnings. Please provide the following information for the total electric utility as well as functionalized as to distribution, transmission, and generation activities for calendar year 2007 and the 12 months ending June 30, 2008:
- a. Balance sheet information on at least the level of detail required by FERC Form 1.
  - b. Income statement information on at least the level of detail required by FERC Form 1.
  - c. Capital budget requirements for future committed investments in Ohio.
  - d. Provide the Company's earned return on equity for calendar year 2007 and the 12 months ending June 30, 2008. Provide and describe all assumptions, all data, and all computations, including electronic spreadsheets with formulas intact.
  - e. Provide the return on equity that was earned during calendar year 2007 and the 12 months ending June 30, 2008 by publicly traded companies that face comparable business and financial risks as the electric utility, if such returns were computed and used by the Company for purpose of the test of excessive earnings. Provide and describe all assumptions, all data, and all computations, including electronic spreadsheets with formulas intact.
  - f. Provide copy of all other analyses prepared by or on behalf of the Company for the purpose of the test of excessive earnings. Describe the purpose of each such analysis and the conclusions relied on by the Company. In addition, provide and describe all assumptions, all data, all computations, including electronic spreadsheets with formulas intact, and a copy of all source documents relied on

**RESPONSE**


Objection. Division (E) of Section 4928.143, Ohio Rev. Code, only permits a prospective review for the existence of significantly excessive earnings for a proposed ESP that exceeds three years, exclusive of phase-ins or deferrals, and then only when going into the fourth year and every fourth year thereafter. The Companies' ESPs each has a term of three years, and so Division (E) will not apply to them. Consequently, to the extent that the information requested is sought in order to apply the earnings test of division (E) to the Companies for the calendar year 2007 or the twelve months ended June 30, 2008 it is neither relevant nor reasonably calculated to lead to the discovery of admissible evidence.

Division (F) of Section 4928.143 calls for an annual retrospective review for the existence of significantly excessive earnings. However, that review will not occur until 2010 for the first time. And, when division (F) is applied for the first time in 2010, it will apply to earnings during 2009, not to earnings during calendar year 2007 or the twelve months ended June 30, 2008. Consequently, the requested information is neither relevant nor reasonably calculated to lead to the discovery of admissible evidence for this proceeding.

Prepared by: Counsel

## CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing DIRECT TESTIMONY OF  
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