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OCC EXHIBIT ____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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 Generation Assets.	)	Case No. 08-917-EL-SSO
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

DIRECT TESTIMONY
of
ANTHONY J. YANKEL

ON BEHALF OF
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I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, ADDRESS, AND EMPLOYMENT.

A1. I am Anthony J. Yankel. I am President of Yankel and Associates, Inc. My address is 29814 Lake Road, Bay Village, Ohio, 44140.

Q2. WOULD YOU BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

A2. I received a Bachelor of Science Degree in Electrical Engineering from Carnegie Institute of Technology in 1969 and a Master of Science Degree in Chemical Engineering from the University of Idaho in 1972. From 1969 through 1972, I was employed by the Air Correction Division of Universal Oil Products as a product design engineer. My chief responsibilities were in the areas of design, start-up, and repair of new and existing product lines for coal-fired power plants. From 1973 through 1977, I was employed by the Bureau of Air Quality for the Idaho Department of Health & Welfare, Division of Environment. As Chief Engineer of the Bureau, my responsibilities covered a wide range of investigative functions. From 1978 through June 1979, I was employed as the Director of the Idaho Electrical Consumers Office. In that capacity, I was responsible for all organizational and technical aspects of advocating a variety of positions before various governmental bodies that represented the interests of the consumers in the State of Idaho. From July 1979 through October 1980, I was a partner in the firm of Yankel, Eddy, and Associates. Since that time, I have been in business for myself. I am a registered Professional Engineer in Ohio. I have presented testimony before the Federal Energy

Regulatory Commission ("FERC"), as well as the state public utility commissions of Idaho, Montana, Ohio, Pennsylvania, Utah, and West Virginia.

Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?

A3. I am testifying on behalf of the Office of the Ohio Consumers' Counsel ("OCC").

Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A4. The purpose of my testimony is to address the riders that are a part of the Electric Security Plan ("ESP") filed on behalf of Columbus Southern Power Company and the Ohio Power Company ("AEP Ohio" or "the Companies").

Q5. PLEASE SUMMARIZE THE FINDINGS IN YOUR TESTIMONY.

A5. I have reviewed the Riders that have been proposed in this case by the Companies. Although I have not found wholesale problems, there are some areas that need to be clarified such that anti-competitive behavior will be minimized. Additionally, the treatment of revenues, credits, and expenses (with respect to Riders 72, 80, and 82 as well as Schedule IRP-D) must be made clear in order to properly assign cost responsibility to operations of the Companies that are benefiting from curtailments, interruptions, and buy-through power.

With respect to the costs associated with the Economic Development Cost Recovery Rider 82, I recommend that these costs be allocated to all customers on the basis of total revenue collected.

With respect to the Energy Price Curtailable Service Rider 72, I recommend that any discounts associated with these customers be treated as non-retail costs in the Companies' Fuel Adjustment Clause Rider 80 as opposed to being collected as if any revenue shortfall should come from the Retail customers.

With respect to proposed interruptible Schedule IRP-D, I likewise proposed that any discounts associated with these customers be treated as non-retail costs in the Companies' Fuel Adjustment Clause Rider 80 as opposed to being collected as if any revenue shortfall should come from the Retail customers. I further proposed that any buy-through power that is purchased on behalf of these customers be treated as belonging to non-retail customers as well.

II. ECONOMIC DEVELOPMENT COST RECOVERY RIDER 82

Q6. ARE THE COSTS OF ECONOMIC DEVELOPMENT PROGRAMS ADDRESSED IN AMENDED SUBSTITUTE SENATE BILL NO. 221 ("S. B. 221")?

A6. I am advised by counsel that under R.C. 4905.31(E) a "reasonable arrangement" filed with the PUCO may include provisions to recover costs incurred with economic development programs and revenue forgone as a result of those programs. In addition, R.C. 4928.143(B)(2)(i) allows a utility to file an ESP with provisions to implement economic development programs and to seek that program costs for economic development be recovered from, and be allocated to, all customer classes. However, it does leave the amount and the allocation of the costs to be recovered to be determined by the Commission. In other words, the Commission could continue its longstanding policy of splitting the cost of the forgone revenue subsidy, also known as delta revenue, equally between shareholders and customers or it could require shareholders to pay a larger percentage. Presumably, before the Commission approves any of these special contracts, it will be assured that all variable costs associated with providing the power to the customer receiving the discount will be covered as well as some reasonable contribution to fixed costs.

Q7. WHAT IS THE COMPANIES' PROPOSAL IN ITS ESP FOR ECONOMIC DEVELOPMENT?

A7. AEP Ohio commits to a "Partnership with Ohio" which consists of a $75 million shareholder contribution for economic development and "at risk" customers. Recovery of additional economic development costs will be through a non-bypassable rider

Q8. WHAT ARE YOUR CONCERNS REGARDING AEP OHIO'S PROPOSED ECONOMIC DEVELOPMENT COST RECOVERY RIDER 82?

A8. Economic development and incentive rates have been a part of the electric utility industry for years. However, the electric utility industry in Ohio is undergoing change, and it is important that procedures and programs from the past reflect the realities under the new environment. When the electric utility supplied all of the generation as well as all of the transmission and distribution services used by the customers, the implementation of economic development rates was straightforward.

Under the ESP proposed by the Companies, customers are going to have an opportunity to shop for generation service from either the Companies or a Competitive Retail Electric Service ("CRES") supplier. It is imperative that rules associated with economic development rates reflect this new reality of multiple possible providers of the largest cost portion of a customer's bill, the generation component.

Economic development should be encouraged because it provides benefits to all customers. Those benefits of economic development would include items like job creation, job retention, and increases in the local economic activity. However, these are not necessarily direct benefits to all customers that would tend to lower electric bills. However, under the new environment for this case, economic development has the potential to be abused by utilities as a means of subsidizing certain customers in a manner that would allow the utilities to retain or gain the generation business of some customers that may be contemplating buying power from an alternative electric service supplier. Such activity would be anticompetitive, should be banned and should not be subsidized by the customers.

Q9. HOW DOES AEP OHIO PROPOSE TO FUND THIS ECONOMIC DEVELOPMENT?

A9. As a part of its ESP filing, AEP Ohio has proposed that it would contribute $75 million of shareholder money to a "Partnership With Ohio" fund, which over the next three years will be used in the Columbus Southern Power and Ohio Power service areas to fund low income customers and economic development. These are shareholder funds, and thus, they do not cause a concern.

However, the Companies are also proposing an Economic Development Cost Recovery Rider 82 as:

> … [1]the mechanism by which the Companies recover the costs, incentives and revenues foregone associated with Commission-approved special arrangements, including special arrangements for economic development, job retention, energy efficiency, and peak demand reduction purposes.

Thus, as proposed by the Companies, any economic incentives offered to customers or revenues foregone will be picked up by the customers and not the Companies themselves. If these incentives or revenue discounts were used for any anticompetitive reason, the customers, through paying the Economic Development Cost Recovery Rider, would actually have an indirect hand in this anticompetitive activity.

[1] Roush Direct testimony at page 12, lines 14-18.

Q10. HOW ARE THESE INCENTIVES AND REVENUE SHORTFALLS DESIGNED TO BE COLLECTED IN THE PROPOSED RIDER?

A10. Rider 82 is designed to recover the Companies' incentives and revenue shortfalls associated with economic development by adding a specific percentage to all customers' distribution charges. Because all customers pay a distribution charge, the Rider 82 for recovery of economic development costs would be non-bypassable and will be collected from shopping as well as non-shopping customers.

Because of the nature of the economic incentives, it is my expectation that very few, if any, of these incentives and/or discounts will be given to shopping customers. First of all, the Companies would be unlikely to give a discount to customers that are not taking generation service from them. Second, if a discount were only given on the distribution portion of the bill (as would be the case for a shopping customer), the percentage discount off of the distribution portion of the bill would have to be quite large when compared to the dollars involved. Even if a 100% discount were given on the distribution portion of the bill, it might fall short of stimulating economic development.

Q11. HOW DO YOU PROPOSE THAT THE ECONOMIC DEVELOPMENT COST RECOVERY RIDER 82 BE STRUCTURED?

A11. It is not possible to structure Rider 82 in manner that the Companies may not use it for anticompetitive purposes. It will be up to the Commission to be vigilant when it approves economic development special arrangements in order to insure that such inappropriate activity is not taking place.

However, there are ways to structure Rider 82 so that it is less likely to be used as an anticompetitive tool. The simplest way would be to make Rider 82 bypassable. In this manner, economic incentives that are given by the utilities will only be collected from non-shopping customers—raising these rates slightly and increasing the propensity to shop for those customers that are paying this charge. In the alternative, if a rider for recovery of economic development costs is not made bypassable, there is a rate design option that could greatly reduce the anticompetitive possibilities of this Rider and yet keep it non-bypassable. Specifically, instead of the charge being based on a percentage of the customer's distribution charge, it should be based on a percentage of the customer's entire bill. In this manner the relative portion of these costs that will be collected from shopping customers will be greatly reduced.

Q12. DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS WITH RESPECT TO ECONOMIC DEVELOPMENT SPECIAL ARRANGEMENTS?

A12. Yes. These economic development special arrangements grant a discount in exchange for the promise that the customer-recipient will create jobs or expand in a way that benefits the economy. Therefore, every year there should be a review to ensure the recipient of the discount is fulfilling its part of the bargain for which customers and the Companies are paying. In the event the customer has not fulfilled its obligations under the economic development special arrangement, the special arrangement should be cancelled, the customer should pay back the delta revenue subsidy (i.e. the discount received) - and the portion of the discount paid by customers should be credited to those customers through Rider 82.

III. ENERGY PRICE CURTAILABLE SERVICE RIDER 72 AND THE FUEL ADJUSTMENT CLAUSE RIDER 80

Q13. HOW DOES THE ENERGY PRICE CURTAILABLE SERVICE RIDER 72 OPERATE?

A13. Essentially, Rider 72 establishes a credit for any customer willing to curtail a portion of its load during times when the cost of generation/supply is "high." Given the fact that the minimum credit the Companies appear willing to pay is 3.5 cents/kWh, which would equate to 80% of the AEP East Load Zone Real-time Locational Marginal Price (LMP)[2], this translates into an LMP of approximately $45 per MWH. Thus, curtailments under this Rider could occur at market prices that are lower than $45 per MWH.

For example, Rider 72 specifies that the curtailment credit shall be the greater of any one of three options. One of those options is a fixed rate of 3.5 cents per kWh ($35 per MWH). If in fact, the highest credit option was this fixed rate of 3.5 cents per kWh, it would mean that it would be higher than one of the options that calls for "80% of the AEP East Load Zone Real-Time Locational Marginal Price (LMP) established by PJM (including congestion and Marginal losses)". If the LMP was at 4.5 cents per kWh ($45 per MWH), and this were multiplied by 80%, the credit would be 3.6 cents per kWh.[3] Thus, if the 3.5 cents per kWh option were implemented, it means that the LMP prices would have had to generally be below $45 per MWH.

[2] See Rider 72 Original Sheet 72-3 under Curtailment Credit.

[3] 45 x 0.80 = 36.

Q14. WHAT IS THE BENEFIT OF RIDER 72?

A14. Basically, Rider 72 gives the Companies options to reduce their marginal cost of supply. Although I assume this Rider was designed to help avoid marginal costs that are well in excess of $45 per MWH, the fact that the credit would deal with costs this low highlights the basis for such a rider—to avoid the need to purchase or generate power above certain costs.

Q15. DOES RIDER 72 BENEFIT RETAIL, NON-SHOPPING CUSTOMERS?

A15. Although there is an obvious benefit to the Companies of avoiding the need to generate or purchase power when costs are high, this does not directly translate into a benefit to the retail, non-shopping customers. The Companies are serving both retail as well as non-retail load. The general design of the Fuel Adjustment Clause Rider 80 is to develop a resource stack that utilizes the lowest cost resources first for the retail customers that would be taking the companies' Standard Service Offer ("SSO"). This is appropriate.

However, economic curtailments and buy-through purchases make the standard resource stack more complicated. The customers that would be offering to curtail under Rider 72 in order to receive a credit are, in fact, retail customers of the Companies. If an appropriate resource stack were used (where retail customers get the lower priced resources), then when Rider 72 customers are curtailed, this would reduce the Companies' highest/marginal cost resources that are used to serve non-retail load. Thus, the benefit of these curtailments goes to the Companies and its non-retail load.

Q16. HOW SHOULD THESE CURTAILMENTS UNDER RIDER 72 BE ADDRESSED IN THE COMPANIES' RESOURCE STACK AND IN THE FUEL ADJUSTMENT CLAUSE RIDER 80?

A16. These curtailments mean that there is less energy purchased at these times for retail customers. I assume that the FAC Rider 80 will appropriately address the load (or reduction of load) of retail customers at these times. Because the credit that is developed under Rider 72 due to these curtailments ultimately is for the benefit of the Companies' marginal costs and their non-retail load, the cost of these credits must be placed on the Companies and the non-retail load portion of the resource stack and not the retail customers.

Q17. ARE THERE OTHER SITUATIONS THAT ARE SIMILAR TO THESE ENERGY PRICE CURTAILMENTS UNDER RIDER 72?

A17. Yes. A similar situation occurs with respect to the Interruptible Power—Discretionary Schedule IRP-D. Under Schedule IRP-D customers have elected to be interrupted at the Companies' discretion. Presumably, this means the Companies will interrupt when supplies are tight and generation or market prices are high. Once again, this type of flexibility is good for the Companies and provides a financial benefit to the customers subjecting themselves to interruption.

However, this does not mean these interruptions are being made for the benefit of the retail customers taking the Standard Service Offer for generation from the Companies. The interruptions would be occurring when the Companies' marginal costs are the highest. Given an appropriate resource stack, where the lowest cost resources are being dedicated to retail Standard Service Offer customers, the interruption of these customers would only be saving/avoiding the highest/marginal system costs—those costs that should be assigned to the Companies' competitive side and not to Standard Service Offer customers.

Q18. WHAT IMPLICATIONS DOES USING AN APPROPRIATE RESOURCE STACK HAVE UPON THE TREATMENT OF SCHEDULE IRP-D REVENUES?

A18. Because the operation of Schedule IRP-D in the future will be for the benefit of AEP Ohio's non-Retail load and not its Standard Service Offer customers, any perceived revenue shortfall should not be attributed/assigned to the Standard Service Offer. The AEP Ohio ESP does not describe how these revenues and expenses will be handled. The ESP needs to clearly state that SSO customers will not be charged for any perceived revenue shortfall, delta revenue, or economic development costs that may be attributed to customers on Schedule IPR-D.

Q19. ARE THERE ANY OTHER ASPECTS OF SCHEDULE IRP-D THAT SHOULD BE CONSIDERED MORE OF A MARKET-BASED OFFERING THAN A STANDARD RETAIL SERVICE?

A19. Yes. Under Schedule IRP-D there is a provision for replacement of electricity that may be purchased by the customer during such a discretionary interruption event, if the customer so desires. By their very nature, these purchases are taking place at the margin, when prices are very high. These are not costs that are being incurred to serve the

Standard Service Offer. There should be no allocation of these costs to the Standard Service Offer—they should be directly assigned to the competitive side of AEP's business. Once again, the AEP Ohio ESP does not describe how these revenues and expenses will be handled. The ESP needs to clearly state that SSO customer will not be charged for any purchases of power that are made specifically at the request of an individual customer (buy-through).

IV. CONCLUSION

Q20. DOES THIS CONCLUDE YOUR TESTIMONY?

A20. Yes, however I reserve the right to supplement my testimony to incorporate new information that may subsequently become available.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the *Direct Testimony of Anthony J. Yankel on behalf of the Office of the Ohio Consumers' Counsel,* has been served upon the following parties via regular U.S. Mail service, postage prepaid (and a courtesy copy via electronic transmission) this 31st day of October, 2008.

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