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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) Case No. 08-917-EL-SSO
Amendment to its Corporate Separation)
Plan; and the Sale or Transfer of Certain)
Generating Assets)

In the Matter of the Application of)
Ohio Power Company for Approval of its) Case No. 08-918-EL-SSO
Electric Security Plan; and an Amendment)
to its Corporate Separation Plan)

PREPARED TESTIMONY

Of

RAYMOND W. STROM
FACILITIES, SITING AND ENVIRONMENTAL ANALYSIS DIVISION
OF THE ENERGY AND ENVIRONMENT DEPARTMENT

STAFF EXHIBIT__

November 7, 2008

PUCO

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1 1. Q. Please state your name and business address.

2
3 A. My name is Raymond W. Strom. My business address is 180 East Broad Street,
4 Columbus, Ohio 43215.
5

6 2. Q. By whom are you employed and what is your position?
7

8 A. I am employed by the Public Utilities Commission of Ohio as a Public Utilities
9 Administrator 2, in the Facilities, Siting and Environmental Analysis division of
10 the Energy and Environment Department.
11

12 3. Q. Please summarize your educational background and work experience.
13

14 A. I have earned B.S. and M.S. degrees from Ohio University, both in the
15 biological/environmental sciences. I have also earned a Master of Business
16 Administration degree from Capital University.
17

18 Prior to my employment with the PUCO, I was employed as a chemist, a
19 laboratory technician, a graduate teaching assistant, a research technician and a
20 quality control coordinator for various organizations. In 1987 I joined the staff of
21 the Public Utilities Commission of Ohio as Supervisor of the Electric Fuel
22 Section. In 1992 I was promoted to Public Utility Administrator 1. Since 1999, I
23 have served as a Public Utility Administrator 2 in the Facilities, Siting and
24 Environmental Analysis division.
25

26 4. Q. Have you testified in prior proceedings before the Commission?
27

28 A. Yes. I have testified in several EFC, ECP, FOR, and ATA cases.
29

30 5. Q. What is the purpose of your testimony?

1 A. The purpose of my testimony is to present Staff's view of the companies'
2 proposed Fuel Adjustment Clause (FAC) rider, as presented in the testimony of
3 Philip J. Nelson, in these cases.
4

5 6. Q. Are you generally familiar with the implementation of fuel adjustment clauses by
6 the Public Utilities Commission of Ohio (PUCO)?
7

8 A. Yes. From the time that I started with the PUCO, in 1987, through the year 2000,
9 I supervised Staff's review of the Electric Fuel Component (EFC) rider for all of
10 Ohio's electric utilities. Since the elimination of the EFC, I have also been
11 involved in various fuel related areas as they have arisen in the implementation of
12 the existing rate stabilization plans of Ohio's electric utilities.
13

14 7. Q. Please characterize the FAC presented by the companies in these cases.
15

16 A. The companies proposal includes the recovery of fuel and emission allowance
17 costs, net of benefits, as did the previously existing EFC. However, their proposal
18 also includes the recovery of additional costs that were not traditionally included
19 in the Commission's EFC rules.
20

21 8. Q. What are some of these additional costs?
22

23 A. These additional costs include items such as: reagents that are used to assure that
24 fuels are burned in an environmentally acceptable manner; non-fuel costs
25 associated with purchased power; dedicated power purchases; disposal costs
26 associated with fuel combustion by-products, such as ash and gypsum; labor costs
27 associated with fuel procurement, reagent procurement, fuel and reagent handling,
28 and fuel combustion byproduct disposal; costs associated with sampling and
29 analyzing fuel quality; the costs of renewable energy credits associated with
30 compliance with Ohio Rev. Code § 4928.64; and, the costs associated with

1 auditing the companies fuel procurement and fuel related activities under the
2 FAC.

3
4 9. Q. Do you agree that these costs are appropriate to include in the FAC?

5
6 A. Yes, I do. Although many of the costs included in the FAC rate are not traditional
7 EFC costs, their inclusion together in a single rate does make logical sense.
8 During the implementation of the EFC, there were times when the issue of
9 adverse incentives arose. For example, a company could have to make a decision
10 to purchase lower cost high sulfur coal, and incur higher scrubbing costs, versus
11 higher cost low sulfur coal and lower scrubbing costs. If coal costs are directly
12 recoverable, while the cost of lime and scrubber sludge disposal are not, this can
13 provide an incentive to a company to make a decision that does not minimize
14 overall cost. Including all of these components in the same rate mechanism
15 removes such incentives.

16
17 It is important to note that inclusion of costs in the FAC rate should occur only if
18 those same costs are not included in other rate components of the ESP. The
19 companies recognize this principle through their recommendation for constructing
20 a baseline FAC component, as presented in Mr. Nelson's testimony. Staff witness
21 Cahaan presents the Staff's recommendation on development of the baseline FAC
22 and avoidance of the potential for double counting costs.

23
24 10. Q. How do you anticipate the FAC process will be implemented?

25
26 A. I expect that the first quarterly FAC rider will become effective with the first
27 billing cycle of January, 2009, based on the FAC rate process determined through
28 this ESP proceeding. Subsequent FAC riders should become effective with the
29 first billing cycle of April, July, and October. This quarterly cycle would
30 continue throughout the ESP period. If the Commission adopts Staff's

1 recommendation regarding deferrals, as presented by Staff witness Cahaan, each
2 quarterly filing should be updated with the most current fuel cost information in
3 order to minimize potential over- or under-recovery of the quarterly fuel costs.
4 Proposed FAC rider rates, along with all necessary information to show the
5 development of the rates, should be provided to Staff for review by the first day of
6 the month prior to their effective dates. Reconciliation amounts should be
7 included in the first quarterly filing for which actual costs and actual revenues are
8 available, which I anticipate to be the third quarter of 2009, and in each quarterly
9 filing thereafter.

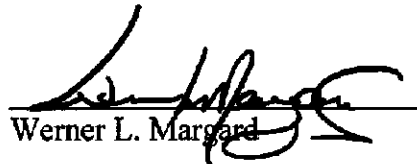
10
11 A review of the appropriateness of the accounting of FAC costs, and the prudence
12 of decisions made relative to the components of the FAC, should be conducted
13 annually. I would expect the audit activities associated with these reviews to
14 begin shortly before the end of each calendar year, and be concluded with an audit
15 report to be filed by early March. The auditor selection process, and the
16 procedural schedule for conducting the audit and hearing related activities, should
17 be established by the Commission.

18
19 11. Q. Does this conclude your testimony?

20
21 A. Yes.

PROOF OF SERVICE

I hereby certify that true copy of the foregoing Testimony submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 7th day of November, 2008.



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