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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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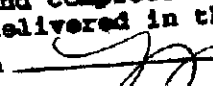
In the Matter of the Application of)
Columbus Southern Power Company for)
Approval of its Electric Security Plan; an) Case No. 08-917-El-SSO
Amendment to its Corporate Separation)
Plan; and the Sale or Transfer of Certain)
Generating Assets)

and)

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

LIMITED REBUTTAL TESTIMONY
OF
J. CRAIG BAKER
ON BEHALF OF
COLUMBUS SOUTHERN POWER COMPANY
AND
OHIO POWER COMPANY

Filed: November 14, 2008

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THE PUBLIC UTILITIES COMMISSION OF OHIO
LIMITED REBUTTAL TESTIMONY OF
J. CRAIG BAKER
ON BEHALF OF
COLUMBUS SOUTHERN POWER COMPANY
AND
OHIO POWER COMPANY
PUCO CASE NO. – 08-917-EL-SSO
PUCO CASE NO. – 08-918-EL-SSO

1 **Q. Please state your name.**

2 A. My name is J. Craig Baker

3 **Q. Are you the same Mr. Baker that filed Direct Testimony in these dockets on**
4 **behalf of Columbus Southern Power Company and Ohio Power Company?**

5 A. Yes I am.

6 **Q. What is the purpose of this additional testimony you are filing?**

7 A. The purpose of my additional testimony is to address the question of what rates
8 the Companies should be permitted to charge for electric service commencing
9 with the January 2009 billing cycle.

10 **Q. When does the January 2009 billing cycle begin?**

11 A. The January 2009 billing cycle begins on December 30, 2008.

12 **Q. Why does this question need to be answered?**

13 A. My understanding of S. B. 221 is that the Commission is required to issue an
14 order in these cases no later than December 28, 2008. That date is 150 days after
15 the Companies filed their application in these cases. Nonetheless, through no
16 fault of the Commission, it is becoming increasingly apparent to the Companies
17 that the Commission will not be able to issue its order resolving these cases
18 before the commencement of the January 2009 billing cycle.

1 **Q. Did the Companies address this concern in their application?**

2 A. Yes. In Section V. E. of their application the Companies addressed what they
3 characterized as the Electric Security Plan Timing Factor. Very briefly, the
4 companies indicated that while they believed the Commission intends to take all
5 necessary actions in order to comply with the 150-day requirement, it might not
6 be able to do so. Therefore the companies proposed a one-time rider to permit
7 recovery of the ultimately approved, ESP as if the order had been issued in time to
8 implement the ESP at the start of the January 2009 billing cycle. I refer to this
9 proposal as a "true-up" proposal.

10 **Q. When was the Companies' application filed?**

11 A. The Companies filed their application on July 31, 2008, the date that S. B. 221
12 became effective.

13 **Q. Why did the Companies wait until the effective date of S. B. 221 to file their**
14 **application?**

15 A. The Companies fully intended to file their application earlier. However, it
16 became clear that the Commission did not believe that a filing prior to the
17 effective date of S.B. 221 would be legally recognized under the new law. In
18 other words, the 150-day clock would not begin to run and the Commission
19 might actually reject such a filing as premature.

20 **Q. Has anything occurred since the filing of the application that gives you**
21 **reason to believe that the 150-day time requirement will not be met?**

22 A. First let me make clear that I believe that the Commission still would prefer to
23 comply with the 150-day requirement for an order in this case. Two events have

1 occurred, however, that further jeopardize the attainment of that requirement.
2 First, when the Commission scheduled the applications that were filed under S. B.
3 221 it staggered the procedural schedules for the applications that had been filed
4 by three of the Ohio electric utility companies. In doing so, one of these cases
5 had to be last and unfortunately the AEP Companies wound up in that situation.
6 The hearing was set to begin on November 3, 2008. Subsequently, in response to
7 motions filed by certain intervenors in this case, the start of the hearing was
8 pushed back two weeks to November 17, 2008. This virtually assured that
9 with post-hearing briefing, the hearing would not be over soon enough to permit
10 the Commission to fully consider the record and arguments made in the briefs to
11 reach a decision within the allotted time. On November 10, 2008, testimony was
12 filed on behalf of the Staff by Mr. Hess. Mr. Hess is the only witness to file
13 testimony in this case that addresses the Companies' true-up proposal.

14 **Q. In light of the initial procedural schedule and the two-week extension of that**
15 **schedule, did the Companies do anything to pursue their true-up**
16 **proposal?**

17 **A.** Yes, as I mentioned, a motion to extend the procedural dates had been filed by
18 several intervenors. In that motion those intervenors indicated that they thought
19 the Companies proposed in Sec. V.E. was reasonable. After the hearing date was
20 postponed by two weeks the Companies filed a motion in these dockets to have
21 the Commission authorize Sec. V.E. Only one party opposed the implementation
22 of the make-whole proposal. That motion currently is pending before the
23 Commission.

1 **Q. Do the Companies' still support their motion to implement Sec. V.E. of their**
2 **application.**

3 A. Yes. The make-whole proposal is the fairest resolution of the Commission being
4 unable to meet the 150-day requirement. If implemented, all parties would be left
5 in the position they would have been in, if the Commission had been able to meet
6 the 150-day requirement. I believe this remedy would best preserve the intent of
7 the General Assembly to have a new Standard Service Offer in effect by the start
8 of the January 2009 billing cycle if the Companies filed their applications on a
9 timely basis.

10 **Q. Have you read the portion of Mr. Hess' pre-filed testimony under the**
11 **heading "Alternative 1/1/09 Plan?"**

12 A. Yes, I have.

13 **Q. Does Mr. Hess explain why he does not agree with the Companies' request to**
14 **have the Commission implement Sec. V.E. of the application?**

15 A. Not directly. I note, however, that one of the features of Mr. Hess' recommendation
16 is that the alternative rates he recommends should stay in place until the effective date
17 of the Commission's final order and that there be no reconciliation of Mr. Hess' alternative
18 rates *vis a vis* the rates established by the Commission's final order. From this
19 recommendation, I infer that Mr. Hess is concerned with the reconciliation feature
20 inherent in the Companies' make-whole proposal.

21 **Q. Putting aside for a moment the rate contents of Mr. Hess' proposal, what is**
22 **your opinion regarding his concern with a rate reconciliation?**

1 A. As I mentioned earlier, a reconciliation is the only way to put both Companies
2 and their customers in the position they would have been in if the 150-day
3 requirement could be met. From the Companies' perspective, any alternative rate
4 plan that is implemented as an interim measure, without reconciliation, and that is
5 less favorable than the ESP proposed by the Companies, will unfairly prejudice
6 the Companies. From the perspective of intervenors who may believe the
7 ultimate ESP should be more favorable to customers than the alternative plan,
8 without reconciliation those intervenors would believe they are being unfairly
9 prejudiced. Therefore, if Mr. Hess' proposal, were adopted, the Commission
10 should make such a plan subject to reconciliation.

11 **Q. With that in mind, please describe your understanding of Mr. Hess'**
12 **recommendation.**

13 A. Mr. Hess suggests that concepts embodied in Commission orders during the
14 Companies' Rate Stabilization period should form the basis of rates for the interim
15 period until the ESP rates are set by the Commission through a final order. More
16 specifically he recommends that: the Companies' generation rates should be
17 increased by seven percent (for CSP) and eleven percent (for OP); the Companies'
18 existing charge for Provider of Last Resort (POLR) service should be maintained;
19 the Companies' line extension policies should remain in place; the loads
20 associated with serving the service territory formerly served by Monongahela
21 Power Company (for CSP) and with serving Ormet (CSP and OP) should be
22 priced at the market rate recommended by OCC witness Smith; and CSP's
23 Regulatory Asset Charge rider be eliminated.

1 **Q. Do you have any position regarding Mr. Hess' proposal?**

2 A. Yes. First, it must be stated that Mr. Hess has recognized a difficult situation
3 regarding compliance with the 150-day requirement and has developed a proposal
4 to address that situation. In doing so, he properly has brought to the forefront the
5 important and practical need to resolve this matter of interim rates. I think that for
6 doing so, Mr. Hess should be commended. Nonetheless, I do not think that Mr.
7 Hess' proposal is comprehensive enough.

8 **Q. In what manner is Mr. Hess' proposal not comprehensive enough?**

9 A. The main component missing from his proposal is the implementation of the
10 Companies' proposed fuel adjustment clause. This particular aspect of the
11 Companies' proposed ESP has a sizable impact on the total rate increase proposed
12 by the Companies and results from the fact that current fuel costs are not reflected
13 in the Companies' rates. To postpone implementation of a fuel recovery
14 mechanism, even with subsequent reconciliation, will, depending on the length of
15 time needed to resolve this proceeding, increase the catch-up payments
16 customers would need to make as part of the reconciliation. Postponing
17 implementation of the fuel recovery mechanism, without subsequent
18 reconciliation, in my opinion would result in a confiscation of the Companies'
19 property. When I refer to the Companies' property, I am referring to the money
20 they will need to spend to acquire the fuel and fuel-related materials needed to run
21 the generating facilities which provide service to our customers. In this regard, it
22 is significant to note that the General Assembly specifically provided for fuel cost
23 recovery for both the ESP and the MRO options under S.B. 221 – in apparent

1 recognition of this critical component of rates. In other words, the General
2 Assembly provided that all electric utilities, regardless of the form of their SSO
3 rate plan, should have an opportunity to collect fuel costs in their rates starting in
4 2009.

5 **Q. What do you propose should be added to Mr. Hess' proposal in regard to a**
6 **fuel cost recovery mechanism?**

7 A. The Companies' proposed FAC provision should be implemented on a
8 reconcilable basis. Even if the rest of the interim rates were not reconcilable, this
9 particular component should be because reconciliation is inherent in fuel cost
10 recovery mechanisms. To minimize controversy for this interim period, it would
11 be appropriate to use the baseline proposed by the Staff as the starting point for
12 such a mechanism. If necessary, the Commission could consider using the Staff's
13 baseline but only allow a significant percentage of the fuel cost to be recovered in
14 the interim and authorize the remaining portion of those costs to be deferred for
15 future recovery once the final order is issued. With this addition to Mr. Hess'
16 proposal, the percentage increases to the generation rates he discusses would be
17 limited to the non-FAC portion of those rates.

18 **Q. Are there other adjustments you would propose to Mr. Hess'**
19 **recommendation?**

20 A. Yes there is one other adjustment. As I noted, Mr. Hess has suggested that the
21 Companies' POLR charges should remain unchanged. Based on testimony
22 presented to the General Assembly by Ohio's Consumer Counsel, it is my
23 understanding that the Companies' POLR charges are the lowest in the State. The

1 Companies' POLR charge is about one-tenth of a cent per KWh, while the POLR
2 charges of Duke and Dayton Power & Light, respectively, are approximately
3 three times and six times that level. The FirstEnergy companies' POLR
4 charges are between twenty-one to twenty-five times higher than the Companies'
5 POLR charges. In light of the very low level of the Companies' current POLR
6 charges, both on an absolute basis and relative to Ohio's other electric distribution
7 utilities, I believe that, as part of the interim ESP rate, the Companies' POLR
8 charge should be increased to reflect half of the increase in POLR rates proposed
9 by the Companies in their application.

10 **Q. Do you have any thoughts regarding Mr. Hess' treatment of the costs to serve**
11 **the customers formerly served by Monongahela Power Company?**

12 A. Yes I do. I am aware that the Power Acquisition Rider presently in CSP's rates
13 is considered as part of the average four percent increases available to the
14 Companies under their Standard Service Offer. I would not want anyone to think,
15 however, that the percentage increases proposed by Mr. Hess and the continuation
16 of the pricing for the former Monongahela Power load somehow double recovers
17 that cost.

18 **Q. Please explain why Mr. Hess' proposal in regard to that issue is appropriate.**

19 A. It must be remembered that what is commonly referred to as the "four percent
20 provision" of the Companies' Rate Stabilization Plan is actually an "average four
21 percent provision." The significance of this distinction is that both CSP and OP
22 have "headroom" available under that provision. Therefore, if the concepts of the
23 Rate Stabilization Plans are embodied in this interim rate plan, the real question is

1 whether CSP has remaining headroom to reflect the continuation of the
2 Monongahela Power-related pricing structure and the full four percent increase
3 included in Mr. Hess' proposal.

4 **Q. How much headroom does CSP have under the average four percent**
5 **provision?**

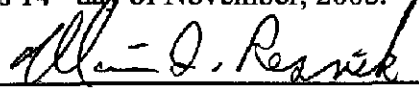
6 A. CSP would have headroom to permit generation rate increases in 2009, in
7 addition to Mr. Hess' recommended four percent increase, of approximately \$21
8 Million. Continuing to apply market pricing for the load formerly served by
9 Monongahela Power, at the market price supported by OCC's witness Smith,
10 would result in recovery of about \$2.7 million per month. Therefore, there is
11 sufficient headroom available under the average four percent provision for
12 recovery of the four percent increase proposed by Mr. Hess, in addition to the
13 Monongahela Power-related fuel costs also proposed by Mr. Hess.

14 **Q. Does this complete your Limited Rebuttal Testimony?**

15 A. Yes it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of Columbus Southern Power Company's and Ohio Power Company's Limited Rebuttal Testimony of J. Craig Baker was served by electronic mail upon counsel identified below this 14th day of November, 2008.



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