FILE

BOEHM, KURTZ & LOWRY

ATTORNEYS AT LAW
36 EAST SEVENTH STREET
SUITE 1510
CINCINNATI, OHIO 45202
TELEPHONE (513) 421-2255

TELECOPIER (513) 421-2764

RECEIVED-DOCKETING DIV
2008 NOV 17 AM 10: 54
PUCO

Via Telefax Transmission and
Overnight Mail

November 14, 2008

Public Utilities Commission of Ohio
PUCO Docketing
180 E. Broad Street, 10th Floor
Columbus, Ohio 43215

In re: Case Nos. 08-917-EL-SSO and 08-918-EL-SSO

Dear Sir/Madam:

Please find enclosed an original and twenty (20) copies of the REBUTTAL TESTIMONY OF STEPHEN J. BARON on behalf of THE OHIO ENERGY GROUP fax-filed today in the above-referenced matter.

Copies have been served on all parties on the attached certificate of service.

Respectfully yours,

Michael L. Kurtz

David F. Boehm, Esq.
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Encl.
Cc: Certificate of Service
Chairman Alan R. Schriber
Ronda Hartman Fergus
Valerie A. Lemmie
Paul A. Centolella
Cheryl Roberto
Kim Bojko, Hearing Examiner
Greta See, Hearing Examiner

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business
Technician [signature] Date Processed 11-17-08

CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served by ordinary mail, unless otherwise noted, this 14th day of November, 2008 to the individuals listed on the attached certificate of service:

David F. Boehm, Esq.
Michael L. Kurtz, Esq.

OHIO POWER COMPANY SELWYN J. R. DIAS SUITE 800 88 E. BROAD STREET COLUMBUS OH 43215-3550	RESNIK, MARVIN AMERICAN ELECTRIC POWER SERV CORPORATION 1 RIVERSIDE PLAZA, 29TH FLOOR COLUMBUS OH 43215
*PETRICOFF, HOWARD VORYS, SATER, SEYMOUR AND PEASE LLP 52 E. GAY STREET COLUMBUS OH 43215	DEBROFF, SCOTT ATTORNEY AT LAW SMIGEL, ANDERSON & SACKS RIVER CHASE CENTER 4431 NORTH FRONT STREET HARRISBURG PA 17110
ROBERTS, JACQUELINE ATTORNEY AT LAW OHIO CONSUMERS' COUNSEL 10 WEST BROAD STREET SUITE 1800 COLUMBUS OH 43215	SCHMIDT, KEVIN (RETURNED MAIL) 33 NORTH HIGH STREET COLUMBUS OH 43215
CONWAY, DANIEL PORTER WRIGHT MORRIS & ARTHUR LLP 41 SOUTH HIGH STREET COLUMBUS OH 43215	GRADY, MAUREEN OFFICE OF CONSUMERS' COUNSEL 10 W. BROAD STREET SUITE 1800 COLUMBUS OH 43215-3485
*MANCINO, DOUGLAS M. MR. MCDERMOTT WILL & EMERY LLP 2049 CENTURY PARK EAST, SUITE 3800 LOS ANGELES CA 90067	HAND, EMMA F SONNENSCHEIN NATH & ROSENTHAL LLP 1301 K STREET NW SUITE 600 EAST TOWER WASHINGTON DC 20005
RII, ETHAN E SONNENSCHEIN NATH & ROSENTHAL 1301 K STREET NW SUITE 600 EAST TOWER WASHINGTON DC 20005	EDWARDS, BENJAMIN ATTORNEY AT LAW ONE EAST LIVINGSTON AVE COLUMBUS OH 43215
FONNER, CYNTHIA A CONSTELLATION ENERGY GROUP, INC. 550 W. WASHINGTON ST. SUITE 300 CHICAGO IL 60661	ETTER, TERRY OHIO CONSUMERS' COUNSEL 10 W. BROAD STREET SUITE 1800 COLUMBUS OH 43215
*HOWARD, STEPHEN M VORYS, SATER SEYMOUR AND PEASE LLP 52 EAST GAY STREET P. O. BOX 1008 COLUMBUS OH 43216-1008	MCALISTER, LISA MCNEES, WALLACE & NURIK 21 EAST STATE STREET, 17TH FLOOR COLUMBUS OH 43215-4228
ROMEO, STEPHEN J SMIGEL ANDERSON & SACKS RIVER CHASE OFFICE CENTER 4431 NORTH FRONT STREET HARRISBURG PA 17110	WUNG, GRACE C MCDERMOTT WILL & EMERY LLP 600 THIRTEENTH STREET NW WASHINGTON DC 20005

BELL, LANGDON D BELL & ROYER CO., LPA 33 SOUTH GRANT AVENUE COLUMBUS OH 43215	GOODMAN, CRAIG PRESIDENT NATIONAL ENERGY MARKETERS ASSOC. 3333 K. STREET, N.W. SUITE 110 WASHINGTON DC 20007
REED, PRESLEY R SONNENSCHEIN NATH & ROSENTHAL LLP 1301 K STREET NW SUITE 600 EAST TOWER WASHINGTON DC 20005	NEILSEN, DANIEL J ATTORNEY AT LAW MCNEES WALLACE & NURICK LLC FIFTH THIRD CENTER, 17TH FL. 21 EAST STATE STREET COLUMBUS OH 43215
*RANDAZZO, SAMUEL C. MCNEES WALLACE & NUICK 21 EAST STATE ST, 17TH FLOOR COLUMBUS OH 43215	ALLEN COUNTY COMBINED HEALTH DISTRICT, DEPT OF PUBLIC HEALTH WIC DIVISION 219 EAST MARKET ST PO BOX 1503 LIMA OH 45802-1503
CITY OF CAMBRIDGE MAYOR'S OFFICE 1131 STEUBENVILLE AVE CAMBRIDGE OH 43752 COMMUNITY IMPROVEMENT CORPORATION NORM BLANCHARD 806 COCHRAN AVE CAMBRIDGE OH 43725-9317 COSHOCTON PORT AUTHORITY 106 SOUTH FOURTH STREET COSHOCTON OH 43812 DELPHOS SENIOR CITIZENS INC 301 EAST SUTHOFF STREET DELPHOS OH 45833 ENVIRONMENT OHIO-ENVIRONMENTAL ADVOCATE AMY GOMBERG 203 EAST BROAD STREET, STE 3 COLUMBUS OH 43215 FAIRFIELD COUNTY ECONOMIC DEVELOPMENT WILLIAM R ARNETT 210 EAST MAIN ST ROOM 404 LANCASTER OH 43130-3879 FOSTORIA AREA CHAMBER OF COMMERCE 121 NORTH MAIN ST FOSTORIA OH 44830	MCDERMOTT WILL & EMERY LLP 28 STATE STREET BOSTON MA 02109 BLOOMFIELD, SALLY ATTORNEY AT LAW BRICKER & ECKLER LLP 100 SOUTH THIRD STREET COLUMBUS OH 43215-4291 SMALZ, MICHAEL ATTORNEY AT LAW OHIO STATE LEGAL SERVICE ASSOC. 555 BUTTLES AVENUE COLUMBUS OH 43215-1137 PETRICOFF, M. VORYS, SATER, SEYMOUR & PEASE 52 EAST GAY STREET P.O. BOX 1008 COLUMBUS OH 43216-1008 ROYER, BARTH E BELL & ROYER CO LPA 33 SOUTH GRANT AVENUE COLUMBUS OH 43215-3927 CLARK , JOSEPH M ATTORNEY AT LAW MCNEES WALLACE & NURICK LLC 21 EAST STATE STREET, 17TH FL. COLUMBUS OH 43215-4228 ECKHART, HENRY ATTORNEY AT LAW 50 WEST BROAD STREET SUITE 2117 COLUMBUS OH 43215-3301
MORGAN STANLEY CAPITAL GROUP, INC	NEWSOME, ROGER

1585 BROADWAY 4TH FLOOR NEW YORK NY 10036 SOUTHGATE CORPORATION 1499 WEST MAIN ST P.O. BOX 397 NEWARK OH 43058-0397 ST STEPHEN'S COMMUNITY HOUSE MICHELLE M MILLS 1500 EAST 17TH AVENUE COLUMBUS OH 43219 BUCKEYE ASSOCIATION OF SCHOOL ADMINISTRATORS M. HOWARD PETRICOFF 52 EAST GAY STREET PO BOX 1008 COLUMBUS OH 43216 CONSTELLATION ENERGY COMMODITIES, GROUP, INC. VP REGULATORY AFFAIRS JOHN ORR 111 MARKET PLACE, 5TH FL BALTIMORE MD 21202 DIRECT ENERGY SERVICES, LLC ERIC STEPHENS 5400 FRANTZ ROAD SUITE 250 DUBLIN OH 43016 DOMINION RETAIL, INC. GARY A. JEFFRIES 501 MARTINDALE STREET SUITE 400 PITTSBURGH PA 15212-5817 MACY'S INC TIM LEIGH 5985 STATE BRIDGE ROAD DULUTH GA 30097 NATURAL RESOURCES DEFENSE COUNCIL 101 N WACKER DR SUITE 609 CHICAGO IL 60606 Steve Nourse @ stnourse@aep.com Dan Conway @ dconway@porterwright.com Werner L. Margard III @ werner.margard@puc.state.oh.us Thomas G. Lindgren @ thomas.lindgren@puc.state.oh.us John H. Jones @ John.jones@puc.state.oh.us Ed Hess, Esq. @ ed.hess@puc.state.oh Rick Cahaan @ Richard.Cahaan@puc.state.oh.us Tom McNamee, Esq. @ thomas.mcnamee@puc.state.oh.us	1850 STATE ROUTE 83 BEVERLY OH 45715 PAULDING COUNTY ECONOMIC DEVELOPMENT INC 101 E PERRY ST PAULDING OH 45879 AMERICAN WIND ENERGY ASSOC. 1101 14TH STREET NW 12TH FLOOR WASHINGTON DC 20005 APPALACHIAN PEOPLE'S ACTION, COALITION MICHAEL R. SMALZ OHIO STATE LEGAL SERVICE ASSOC. 555 BUTTLES AVENUE COLUMBUS OH 43215 CONSTELLATION NEWENERGY, INC. DAVID I. FEIN SUITE 300 550 W. WASHINGTON BLVD. CHICAGO IL 60661 CONSUMERPOWERLINE 17 STATE STREET 19TH FLOOR NEW YORK NY 10004 DIRECT ENERGY SERVICES, LLC ERIC STEPHENS 5400 FRANTZ ROAD SUITE 250 DUBLIN OH 43016 INTEGRYS ENERGY SERVICES INC BOBBY SINGH 300 WEST WILSON BRIDGE ROAD SUITE 350 WORTHINGTON OH 43085

*Indicates that filer has agreed to be automatically served via electronic mail.

BEFORE THE

PUBLIC UTILITY COMMISSION OF OHIO

IN RE:	**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**

REBUTTAL TESTIMONY

OF

STEPHEN J. BARON

ON BEHALF OF

THE OHIO ENERGY GROUP

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

November 2008

BEFORE THE

PUBLIC UTILITY COMMISSION OF OHIO

IN RE:	**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**

Q. *Are you the same Stephen J. Baron who provided* Direct Testimony *in this case?*

A. Yes. I am again testifying for the Ohio Energy Group.

Q. What is the purpose of this Rebuttal Testimony?

A. I will respond to those portions of the testimony of Staff witness J. Edward Hess on his recommendation for an "Alternative 1/1/09 Plan" in the event that the Commission does not issue a final order within 150 days of the filing of the ESP Applications of CSP and OPC.

Q. Please summarize your conclusions.

A. In section V.E. of their Application in this case, the Companies have proposed that "the rates charged under the Companies existing standard service offer" remain in effect until the Commission approves an ESP. At that point, the Companies propose a one-time rider to effectively true-up the approved ESP rates with the interim existing standard service offer rates, with such true-up to be recovered over the remaining portion of 2009 and possibly into

2010. OEG agrees with the Companies' proposal and recommends that the Commission adopt it. Of course, OEG continues to recommend the modifications to the Companies' ESP outlined in our Direct Testimony, which should form the basis for the approved ESP and the true-up of any interim ESP.

In the event that the Commission adopts the Staff proposed "Alternative 1/1/09 Plan," as described in Staff witness Hess' testimony, it should be modified as discussed below. Mr. Hess is proposing to award generation rate increases of 3% plus 4% to CSP and 7% plus 4% to OPC. In addition, he is recommending to "*price the Monongahela and Ormet loads at the market price recommended by OCC witness Smith.*" If Mr. Hess' recommendation is adopted by the Commission, his proposed pricing of the Monongahela and Ormet loads at market prices should be eliminated from the Staff plan. This portion of the Staff's "Alternative 1/1/09 Plan" is not reasonable and should be denied. Based upon my understanding of S.B 221, if an ESP is not approved within the 150 day time period, then the rate plans currently in effect will continue. Pricing the Ormet load at market based rates is not part of the currently effective rate plan. Pricing the CSP load that formerly was served by Monongahela Power at market is referenced in the current rate plan, but the delta revenue produced by this provision is to be contained within the 4% provision of the rate plan. Mr. Hess recommends giving CSP the full 4% plus the Monongahela Power delta revenue. This is a double count that goes beyond the rate plan.

Staff's proposal would unnecessarily cause rates to go up by approximately $17.7 million per month in 2009. Any such additional rate increases is particularly unreasonable in this difficult economic environment in Ohio. The U.S. economy, including Ohio, has likely entered a recession that may be severe.[1] In addition, based on the Companies' earnings for the 12 months ending September 2008 of 11.26% for OPC and 20.11% for CSP, there does not appear to be any need to bolster the Companies through additional rate relief.

My proposed adjustment to Mr. Hess' plan is to limit the interim generation increases beginning January 1, 2009 to 3% plus 4% for CSP and 7% plus 4% for OPC. These are the maximum generation related rate increases allowed under the currently effective rate plan. This change will benefit all ratepayers, including Ormet and the CSP ratepayers formerly served by Monongahela Power, by reducing the January 1, 2009 rate increase on all customers.

Q. Would you describe Mr. Hess' Alternative 1/1/09 Plan?

A. Mr. Hess confronts the very real possibility that the Commission will not be able to issue its final ESP order by the end of this year. It is important for both the utilities and consumers to know the rates that they will be charged for generation beginning in 2009. Mr. Hess recommends that the generation rates of CSP be increased by 3% and 4%; that the generation rates of OPC be increased by 7% and 4%; that existing POLR rates be kept in place; that the line extension policy be kept in place; that the RAC rider for CSP be allowed to terminate; and that CSP and OPC be authorized to "price the Monongahela and Ormet loads at the market price recommended by OCC witness Smith."

[1] Third quarter 2008 GDP fell by 0.3%, based on initial GDP reporting.

Q. Should Mr. Hess' Alternative 1/1/09 Plan be adopted, as he proposes it, if the Commission does not adopt the Companies' interim proposal to maintain the existing standard offer rates, coupled with a true-up to the approved ESP?

A. No. If his proposal is adopted, it should be modified to eliminate the provisions that would authorize CSP and OPC to charge all ratepayers the difference between the amounts actually collected from Ormet and the former Monongahela Power customers under the Commission approved tariff rates and the market price determined by OCC witness Smith. .

Q. Based on your understanding, which provision of SB 221 governs the situation where an ESP Order is not issued within 150 days?

A. Section 4928.141(A) provides that "*Notwithstanding the foregoing provision, the rate plan of an electric distribution utility shall continue for the purpose of the utility's compliance with this division until a standard service offer is first authorized under Section 4928.142 or 4927.143 of the Revised Code ....*" My interpretation of this provision is that the current "rate plans" of OPC and CSP "shall continue" until a final ESP order is issued in this case.

Q. What are the rate plans of OPC and CSP?

A. On February 9, 2004, CSP and OPC collectively filed an application (Case No. 04-169-EL-UNC) for approval of a Rate Stabilization Plan to be effective for the three-year period beginning January 1, 2006 and ending December 31, 2008. By Order entered January 26, 2005, the Commission approved the Rate Stabilization Plan of AEP with five modifications.

Q. Is this the rate plan which is currently in effect?

A. Yes. The rate plan was initially approved in January 2005, became effective January 1, 2006 and expires on December 31, 2008.

Q. Please summarize this rate plan as it is relevant to this proceeding.

A. The rate plan authorized CSP to increase the generation rates of each of its rate schedules by 3% in 2006, 2007, and 2008. OPC was authorized to increase its generation rates by 7% in 2006, 2007 and 2008. In addition, each Company was authorized to increase its generation rates by an additional 4% to recover increased expenditures for environmental requirements, security, taxes, new generation-related requirements, and customer load switches (shopping) that could materially jeopardize the recovery of anticipated generation revenues. Therefore, in the currently effective rate plans, the total annual generation rate increases were capped at 7% for CSP and 11% for OPC.

Q. Is Staff's "Alternative 1/1/09 Plan" consistent with the rate plans currently in place for the Companies?

A. No. Staff would allow CSP to raise generation rates by the full 7% and OPC by the full 11% on January 1, 2009. This is the maximum amount allowed under the rate plan. This would result in a monthly rate increase for CSP of approximately $6.2 million and a monthly rate increase for OPC of approximately $9.8 million. However, the Staff Plan would also impose additional rate increases not authorized by the currently effective rate plan.

Q. Please explain the additional rate increases proposed by Staff.

A. Staff proposes that the former customers of Monongahela Power (approximately 300 MW of load), who are now CSP ratepayers pay the CSP approved tariff rates. The Staff proposes that the difference between the generation rates actually paid by the former Mon Power customers and the market price for generation recommended by OCC witness Smith be included as an additional charge to all CSP customers. I estimate that this will cause rates to increase by an additional $3.8 million per month. This amount is in excess of the 7% and 11% caps authorized in the existing rate plan.

Staff also proposes that the difference between the generation rate actually paid by the Ormet Aluminum Smelter beginning January 1, 2009 and the market price recommended by OCC witness Smith be recovered from ratepayers. Effective January 1, 2007, the 520 MW Ormet aluminum smelter load was located in a joint CSP/OPC service territory. Ormet is currently served under a two-year special contract that expires at the end of 2008. Ormet's 2007-2008 special contract is for generation at $43/mWh, which is priced above the otherwise applicable tariff generation rate. Once that contract expires and Ormet pays only the tariff rate (one-half CSP's rate GS-4 and one-half OPC's rate GS-4), Ormet will receive a rate reduction. I estimate that Staff's recommendation to award CSP and OPC delta revenue for the difference between serving Ormet at the Commission approved industrial tariff and OCC's calculation of market pricing will raise rates by approximately $13.9 million per month. This rate increase is in excess of the 7% CSP rate cap and 11% OPC rate cap authorized in the currently effective rate plan. Baron Exhibit__(SJB-1R) shows the development of both the Mon Power and Ormet revenue impacts.

Q. Will the recommendation of Mr. Hess be beneficial to the former Mon Power customers or Ormet?

A. No. The former Mon Power ratepayers and Ormet will presumably be subject to the same charges as everyone else until a final ESP is approved. Therefore, if CSP and OPC are allowed to exceed the 7% and 11% rate caps authorized in the current rate plans, all customers will be economically disadvantaged. The only beneficiaries of Staff's proposal are the AEP shareholders.

Q. Does the rate plan which is currently in effect address the rate issues surrounding Ormet?

A. No. The rate issues involving Ormet were resolved by PUCO Order entered November 8, 2006 in Case No. 05-1057-EL-CSS. This was more than two and one half years after AEP's RSP rate plan was filed on February 8, 2004 (Case No. 04-169-EL-UNC). The currently *effective* rate plan does not address the Ormet situation.

Q. What are the rate issues involving Ormet?

A. As I described earlier, Ormet has a two-year contract containing a generation rate that is more expensive than tariff. Paying above tariff (but below market) was part of the settlement wherein the Ormet facility was authorized to be relocated in the joint service territory of CSP and OPC. Ormet is now a ratepayer of CSP and OPC. Ormet's special contract expires at the end of 2008, at which time Ormet will take service as a regular tariff customer (unless and until the Commission approves a new special contract for Ormet). Also, as part of the settlement, CSP and OPC were authorized to recover the difference between the $43/mWh generation rate in the Ormet contract and an administratively determined market price. The ability of CSP and OPC to collect the difference between Ormet's 2007-2008 contract price and market expires at the end of this year. This two-year Ormet resolution is not part of the currently effective rate plan. The Ormet matter is separate from the rate plan.

Q. Is the currently effective rate plan impacted by the rate issues surrounding the transfer of the Monongahela Power service territory to CSP?

A. Yes. In the Monongahela Power service territory transfer case the Commission authorized a Power Acquisition Rider for the period 2006-2008. This Rider compensated CSP for the difference between the tariff rates paid by the former Monongahela Power customers and CSP's purchase of power at market rates to serve the load. But CSP's Power Acquisition Rider was included in the 4% cap portion of the rate plan. "*The Commission notes, however, that CSP's RSP contains the provision that the additional generation adjustments are effectively capped at 4 percent. Accordingly, the calculation of the Power Acquisition Rider must not exceed the 4 percent limit.*"[2]

The proposal of Staff is contrary to the CSP rate plan. Staff would allow CSP to charge the full 3% plus 4% generation increases, plus an extension of the Power Acquisition Rider. By contrast, the CSP rate plan allows for the Power Acquisition Rider within the 4%; not in addition to it. Staff's double count of the Monongahela Power delta revenue goes beyond the rate plan.

Q. Please summarize the level of rate increases that would result from Staff's proposal that are over and above the increases authorized in the currently effective rate plan.

A. With respect to Staff's Ormet recommendation, the rate increase over and above the amount authorized by the currently effective rate plan is approximately $13.9 million per month. With regard to Staff's Monongahela Power recommendation, the excessive amount is $3.8 million per month. These excessive amounts would, by themselves, increase consumer rates by 5.7% annually under the Staff's alternative plan.

[2] November 19, 2005 Order at p. 18, Case No. 05-765-EL-UNC.

Q. **Are these additional rate increases particularly unreasonable given the level of earnings of OPC and CSP?**

A. Yes. Based on the Companies' earnings reported in SEC filings, for the 12 months ending September 2008, OPC' after-tax return on common equity was 11.26% for OPC. For CSP, the after-tax rate of return on common equity was 20.11%.

Q. **Has Mr. Hess provided a foundation for his recommendation to award CSP or OPC rate increases based on the difference between Commission approved tariff pricing and market prices for the Mon Power and Ormet load?**

A. Not based on my review of his testimony. Nor is there a basis for such a proposal based on my understanding of SB 221. The ESP portion of SB 221 authorizes rate increases only for prudently incurred costs. In addition, an ESP must be more favorable in the aggregate than an MRO. Finally, substantially excessive earnings caused by ESP adjustments must be refunded to consumers.

Q. **Assuming that the Commission wanted to reimburse AEP's shareholders for the lost profits resulting from selling to the former Mon Power ratepayers and Ormet at the otherwise applicable tariff generation rates instead of at market, is the methodology recommended by Mr. Hess correct?**

A. No. There are at least two major conceptual problems with the recommendation. First, Staff's analysis incorrectly assumes that AEP's shareholders would have retained 100% of the additional off-system sales profits that would be generated by foregoing the sales to Ormet and the former Mon Power ratepayers and instead selling the power at market prices. Contrary to this assumption, AEP's shareholders would have only retained a portion of the additional off-system sales profits. The remainder would flow through to ratepayers in the other states where AEP operates.

Under the AEP Interconnection Agreement, profits from off-system sales are allocated to OPC, CSP, Appalachian Power, Kentucky Power and Indiana & Michigan Power according to their Member Load Ratio. This is basically a measure of each AEP Member Company's relative peak demand. It doesn't make a difference which AEP Member Company's power plant actually made the sale.

This means that if Ormet had never been relocated to the retail service territory of CSP and OPC, or if CSP never acquired the former Monongahela Power service territory, the increased off-system sales margins would be allocated among the AEP Member utilities, not directly to AEP shareholders. Depending on the specific rate making treatment of off-system sales margins in each jurisdiction, both ratepayers and AEP shareholders would benefit to varying degrees. For example, in West Virginia, all of Appalachian Power's additional share of off-system sales profits would flow through directly to ratepayers in their version of a fuel adjustment clause. Therefore, Staff's proposal is better for AEP's shareholders than what the actual results would have been had the Ormet and Monongahela Power transactions never occurred (assuming that AEP would otherwise have provided the power as an off-system sale).

Second, the use of OCC witness Smith's market prices of \$73.94/mWh for CSP and \$71.04/mWh for OPC significantly inflates the likely Ormet delta revenues. OCC witness Smith's market price numbers are for the system averages and do not take into account Ormet's 99% load factor and its transmission delivery voltage. For the two-year period where AEP was actually authorized to collect for lost off-system sales margins because of Ormet, the market price was calculated to be $47.69/mWh in 2007 and $53.03/mWh in 2008. OCC witness Smith's market price forecasts (which were prepared for a completely different purpose) are 39% - 55% higher. Even if the Commission approved the Staff proposal to provide for delta revenues for the Ormet load, the Staff proposal is excessive.

Q. Should there be a true up to charge or credit the difference between the amounts charged under an interim arrangement and the final ESP, if the Staff Alternative 1/1/09 Plan is adopted?

A. It is my understanding that there would be no true-up under the Staff proposal. Whether the Staff proposal or the Companies' true-up proposal is adopted, the revenues received by the Companies during any such interim period in 2009 should be subject to refund under the significantly excessive earnings test.

Q. Does that complete your Rebuttal Testimony?

A. Yes.

BEFORE THE

PUBLIC UTILITY COMMISSION OF OHIO

IN RE:	**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**

REBUTTAL EXHIBIT

OF

STEPHEN J. BARON

ON BEHALF OF

THE OHIO ENERGY GROUP

Calculation of Ormet Revenues
Assumuptions:

Total Load (kW):	520,000
Load Factor:	99%
Annual Energy (kWh):	4,509,648,000
Assumed Power Factor:	1.00
Voltage Level:	Transmission
No Off-Peak Excess Demand	
No Rider Revenue Included	

GS-4 Tariff Billing - Generation

Ohio Power Company				11.00%		
	Units		**2008 Rates**	**2009 Rates**	**2009 Billings**	
Demand	3,120,000	kW	8.37	9.29	28,986,984	
Energy	2,254,824,000	kWh	0.0191268	0.0212307	47,871,600	
Total Base Rate Generation					76,858,584	
Gross Receipts Tax Credit Rider				-4.52992%	(3,481,632)	
Municipal Income Tax Charge	2,254,824,000			0.0000216	48,704	
Franchise Tax Rider	2,254,824,000			0.0003467	781,747	
Regulatory Asset Charge Rider	2,254,824,000			-	-	
POLR Charge Rider	2,254,824,000			0.0011002	2,480,757	
Power Acquisition Rider				0.00000%	-	
Generation Cost Recovery Rider				0.52105%	382,585	
Total Charges					77,070,746	34.18

Columbus Southern Power Company				7.00%		
	Units		**2008 Rates**	**2009 Rates**	**2009 Billings**	
Demand - 1st 3000 kVa	36,000	kVa	9.481	10.145	365,208	
Over 3000 kVa	3,084,000	kVa	4.002	4.282	13,206,120	
Energy	2,254,824,000	kWh	0.0248085	0.0265451	59,854,517	
Total Base Rate Generation					73,425,845	
Gross Receipts Tax Credit Rider				-4.87829%	(3,581,926)	
Municipal Income Tax Charge	2,254,824,000			0.0000816	183,994	
Franchise Tax Rider	2,254,824,000			0.0006304	1,421,441	
Regulatory Asset Charge Rider	2,254,824,000			0.0018722	4,221,481	
POLR Charge Rider	2,254,824,000			0.0004711	1,062,248	
Power Acquisition Rider				4.43115%	3,253,609	
Generation Cost Recovery Rider				4.41588%	3,242,397	
Total Charges					83,229,090	36.91
Total Ormet Billing at Tariff					160,299,836	

Billing at OCC (Smith) Market Prices

	Energy (kWh)	**Rates ($/mWh)**	**Cost**
Ohio Power:	2,254,824,000	71.04	160,182,697
Columbus Southern:	2,254,824,000	73.94	166,721,687
Total			326,904,384

Annual Difference for Rate Recovery	166,604,548
Monthly Difference	13,883,712

CSP - Former Mon Power Territory
Impact of OCC Market Prices
Based on Roush DMR Exhibit 3 from Docket 05-765-EL-UNC
Updated Generation Realizations from Response to Staff 10-1, Attachment 1
2008 Generation Realizations increased by 7%
Other Industrial and Eramet assumed average Industrial realization

	2006 mWh Load	7.00% **CSP Generation Realization**	**Recovery**	**Cost to Purchase at $73.94**	**Net Under-recovery**
Residential	273,248	49.54	13,537,310		
Commercial	204,851	55.68	11,407,066		
Other Industrial	504,582	45.59	23,001,462		
Eramet	723,895	45.59	32,998,885		
SL	2,072	44.85	92,939		
Total MP Load	1,708,648		81,037,662	126,337,433	45,299,772
Monthly Under-recovery					3,774,981