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December 30, 2008

Public Utilities Commission of Ohio
Renee J. Jenkins, Secretary
180 East Broad Street
Columbus OH 43215

Attention: Docketing

Re: Brief of the Ohio Manufacturers' Assoc., Case Nos. 08-917-EL-SSO and 08-918-EL-SSO; Columbus & Southern Power Co., and the Ohio Power Company's Electric Security Plan

Dear Ms. Jenkins:

Enclosed for filing in the above entitled matter are 20 copies of the Ohio Manufacturers Association's post-hearing brief, plus two additional copies for being dated stamped and returned.

Sincerely,

Langdon D. Bell

LDB/is
Enclosures
cc: Chairman Alan R. Schriber w/enclosure
Commissioner Paul A. Centolella w/enclosure
Commissioner Ronda Hartman Fergus w/enclosure
Commissioner Valerie A. Lemmie w/enclosure
Commissioner Cheryl L. Roberto w/enclosure
Mr. Steven Lesser w/enclosure
Ms. Kimberly Boyko w/enclosure
Ms. Greta See w/enclosure

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus & Southern Power Company For The Approval of its Electric Security Plan And 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

BRIEF OF THE OHIO MANUFACTURERS' ASSOCIATION ON THE COLUMBUS & SOUTHERN POWER COMPANY AND THE OHIO POWER COMPANY'S ELECTRIC SECURITY PLAN

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Dated: December 30, 2008

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THE PUBLIC UTILITIES COMMISSION OF OHIO

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BRIEF OF THE OHIO MANUFACTURERS' ASSOCIATION
ON THE
COLUMBUS & SOUTHERN POWER COMPANY
AND THE OHIO POWER COMPANY'S
ELECTRIC SECURITY PLAN

I.

INTRODUCTION

American Electric Power Company's (AEP) two Ohio based operating utilities, Ohio Power and Columbus and Southern Power, have historically provided the foundation for the expansion and growth of AEP into one of this nation's largest investor owned utilities, with over 39,000 megawatts of generating capacity and a "significant cost advantage in many of our [its] market areas"[1] brought about by a demonstrably sound *regulated business model.*

As will be demonstrated hereinafter AEP has not departed from that fundamentally sound *regulated business model* that has served it so well, as reflected in its Chairman and Chief Executive's most recent November 11, 2008 presentation before the Edison Electric Institute.

[1] IEU Exhibit No. 7, p. 6.

Nor, as revealed by the testimony of its policy witness Joseph Hamrock, has that fundamental regulated business model been changed by SB 221 except to the extent AEP views this legislation as a potential vehicle to increase its Ohio subsidiaries already high electric rates and return on equity ... at the time these applications were filed on July 31, 2008.

However, as acknowledged by virtually all of the expert and lay witnesses testifying in this docket, a sea change of seismic proportions has taken place with the Nation's "economy" and its electric "markets" (particularly in the industrialized mid-west and specifically within the State of Ohio) which makes AEP's *regulated business model* even more relevant today given the uncertainties that now exist and will likely persist well into the companies' proposed three year ESP.

The OMA respectfully submits that – as will be demonstrated hereinafter – AEP's proven successful *regulated business model* has been primarily founded upon cost-based ratemaking, which business model will continue to best serve the interests of AEP's shareholders, AEP's customers and the policy objectives of SB 221 over its three year period ESP.

II.

AEP-OHIO[2] HAS FAILED TO SUSTAIN ITS BURDEN OF PROOF THAT THE PROPOSED ESP IS, IN THE AGGREGATE, MORE BENEFICIAL THAN A MARKET RATE OFFER

AEP-Ohio has sought to utilize SB 221 as the vehicle by which it seeks a $462,942,834[3] rate increase in 2009, a $302,860,810 rate increase in 2010,[4] and a $686,412,652 rate increase for 2011.[5], While portrayed as year-over-year increases of 15% each year, the aggregate of these

[2] AEP has, throughout these proceedings, referred to its Ohio Power Company and Columbus & Southern Ohio Company subsidiaries as "AEP-Ohio," which term will similarly be employed herein.
[3] Exhibit DMR-1, p. 1-2, $238,488,844 for CSP and $244,453,990 for OP.
[4] *Id.*, $302,568,237 for CSP and $292,573,199 for OP.

"capped" year-over-year 15% increases total an increase well in excess of 50% for each of these companies. To this staggering amount totaling $1.452 Billion, we must (as AEP policy witness Hamrock tells us)[6] add $112 million in FAC deferrals for CSP and $439 million in FAC deferrals for OP, totaling another $551 million in rate increases – only the "collection" of which takes place during the years 2012 through 2018.[7]

Simply stated AEP Ohio looks to SB 221 as the means by which it is requesting a total rate increase of $2.003 Billion! A rate increase of this magnitude is quite a heavy burden for any utility to bear at any time, let alone for financially healthy utilities such as CSP and OP to bear at this time when their ratepayers are paying the highest rates per kWh of any of the other AEP subsidiary utilities' ratepayers in the surrounding states' AEP Eastern Region's "footprint."[8]

While not faulting AEP-Ohio in its understandable desire (at the time it filed these ESP's) to secure authorization to increase the revenues it may collect from its jurisdictional retail customers, one must scrutinize each of the items by which AEP-Ohio seeks to justify these increases. As an example, for the year 2009 six items are relied upon to generate the increase requested in that year: Fuel Adjustment Clause; 2001-2008 Incremental Environmental Capital Investment; Non-FAC Generation; Provider of Lost Resort (POLR); Distribution; Energy Efficiency & Peak Demand Reduction. In the case of CSP a full forty percent of the first year's total increase is attributed to the POLR charge[9] increase of $93.6 million. The remaining 2009 CSP increase is attributable to the FAC ($147 million), the 2001-08 capital improvements ($26

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5 *Id.*, $347,953,473 for CSP and $336,459,179 for OP.

6 Transcript, Vol. III, p. 112 – 112 (OMA cross-examination).

7 Exhibit LVA-1.

8 OMA cross-examination of AEP witness Hamrock, Vol. III, p. 121 - 124; other state's rates of 6.36¢, 6.71¢ and 6.83¢.

9 Which itself sustains a 642% increase.

million), energy and peak demand reductions ($13.5 million) and the non-cost based RSP premised 3% generation and 7% distribution increases ($38.02 million).[10]

The 2009 increases for Ohio Power are similarly based upon the same six items, with the 2001-08 environmental capital improvements constituting the largest component ($84.0 million), followed by the FAC ($66.6 million), the POLR charge ($21.190 million),[11] the energy efficiency and demand reduction ($16.775 million), and the 7% generation and 6.5 distribution increases ($63 million).

Of particular concern to energy intensive manufacturers is the fact that the companies seek to recover a large proportion of these staggering generation based rate increases through their fuel adjustment clauses ("FAC"). The companies Exhibit DMR-1 reveals the FAC revenues for CSP will increase from $604 million in 2008 to $1.272 billion in 2011 and the FAC revenues for OP will increase from $520 million in 2008 to $1.032 billion over the same time frame. These increases equate to increases of 100%, or greater, over the years 2009, 2010, 2011. Such "estimates" of the projected fuel cost's increases exceeding 100% over the next three years is without a rational basis in light of prevailing commodities' prices.

The OMA further concurs with the Commercial Group's expert witness Gorman's criticism of the companies' proposed recovery of <u>fixed</u> capacity related generation costs in the <u>variable</u> FAC recovery mechanism. The resultant recovery of fixed costs through the variable FAC mechanism (designed for the recovery of fuel and other variable costs) produces two undesirable results: First, it produces unstable revenues – either over-recovery, or under-recovery, -- of fixed generation costs depending upon variable energy sales. Second, it results in placing unwarranted, burdensome, fixed generation cost burdens upon high load factor intensive

[10] Exhibit DMR-1, 1 of 1.

[11] Itself only a 54% increase over the 2008 current POLR charge of $29.7 million. *Id.*

energy users. And, third, it sends erroneous price signals to customers. Such an assignment of revenue responsibility and means of revenue recovery can only penalize Ohio in its economic recovery efforts.

While not submitting an expert witness of its own, the OMA supports the testimonies of other intervenor expert witnesses' uniform criticism on the outdated and inflated market rates for generation, produced by the companies herein to support the proposed FAC and non-FAC generation revenue increases. This is the same defect found by the Commission as the basis for rejecting the increases proposed by the First Energy in its ESP application[12] Indeed it is remarkable that each of the separate and distinct expert opinions articulated by intervenor witnesses Higgins, Gorman, Fein, Kollen, Smith and Baron, spoke in unison on their critical observations on the companies' excessive generation oriented rate increases, as well as the inappropriateness of addressing the subject matter of fully regulated "distribution service" rate increases within the context of the instant hybrid SB 221 "Electric Security Plan" proceeding focusing on "generation service." Applicants here seek respective annualized distribution rate increases of 6.5% and 7%, amounting to $144.4 million[13] over the plan period, an admittedly non-cost based component of this hybrid SB 221 proceeding. The OMA submits that the most appropriate proceeding in which the companies' distribution rates may be determined is a distribution rate case, as recommended by the Commission's Staff herein.[14]

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[12] PUCO Case No. 08-935-EL-SSO, Opinion and Order issued November 19, 2008.
[13] Exhibit DMR 1, p. 1 and 2.
[14] It is to be observed that such an "address" of distribution rates and rate increases within the context of a distribution utility's overall revenue requirements was deemed appropriate by the Commission in First Energy's *ESP Application*, PUCO Case No. 08-935-EL-SSO, Opinion and Order issued December 19, 2008.

III.

THERE EXISTS NO JUSTIFICATION FOR AEP-OHIO'S PROPOSED PROVIDER OF LAST RESORT (POLR) CHARGE

One need not be an "option's trader" on an exchange floor to recognize that individual electric customers leave the AEP-Ohio companies daily and other individual customers come to these companies daily. Indeed the same customer may leave the Ohio Power Company system one day and connect with its sister Columbus Southern Power Company the next day. This "coming" and "going" of customers can be the result of an employee's job transfer; the closing of one retail store and opening of another retail store by the same chain store; the relocation/resizing of a manufacturing operation within the same utility's service area or between the service areas of affiliated utilities (such as OP and CSP); or simply one customer's departure from the system offset by another customer's arrival on the system for the first time. Thus, the revenue recovery "risks" associated with customers leaving, returning, or attaching to the electric utility system for the first time has always been risks for which the utility has been compensated in the utility's authorized "return."

However, as a result of SB 221 articulating a "right" that utility customers have long possessed – the right to come and go – the AEP-Ohio companies are requesting a $114,814,537[15] rate increase in 2009 simply because SB 221 recognizes that "right" its customers have possessed for years. Notwithstanding the unanimous intervenor criticism of the company's use of the Black-Schoals' model in its attempt to place a monetary value on this "unique" risk, Company Witness Baker explained upon cross-examination by the OMA[16] that what the

15 DMR Exhibit No. 1.
16 Volume X, p. 208-212.

company is trying to value is "the optionality" of customers moving from and to its system ... using "puts" and "calls" *as a descriptor,* where going away from tariff is *"in effect"* a "put" to AEP, and returning is [in effect] a "call" on AEP by "the woman in the household." Accordingly AEP-Ohio seeks to secure an additional $114.8 million a year in each of the next three years, or slightly in excess of $344 million in increased rates, by reason of SB 221 recognizing a "right" the customer has always had and for which the company has traditionally been compensated! This reasoning lacks persuasive merit, as does the windfall revenues it produces.

The AEP-Ohio companies suggest that the Commission ignore the fact that its customers have possessed "shopping rights" to access the services of competitive retail electric service providers since the passage of Senate Bill No. 3 by the General Assembly nearly ten years ago. And, AEP-Ohio also suggests that the Commission ignore the fact that after ten years they collectively have approximately 1,000 shopping customers, all of which are commercial customers of CSP. These shopping customers amount to an infinitesimal number of these companies' total customers at year end 2007.[17]

What make this POLR charge particularly egregious is that, under the company's ESP, the customer is required to pay this charge regardless of whether the customer is even aware of this "right," regardless of whether the customer has any desire to possess this right, and regardless of whether the customer has any intention to exercise the right.[18] And, the companies will continue to collect almost $115 million -- year after year -- even if not one single customer were to "shop"![19] And, it might be observed that, even if retail customers "shop," such shopping

[17] At year end Columbus and Southern had 746,000 customers and Ohio Power Company had 583,000, for a total of 1,329,000 customers. IEU Ex. No. 7, p. 24, 28; Tr. Vol. X, p. 24.

[18] Transcript Volume X, p. 212.

[19] There has been no shopping experienced by Ohio Power, which received $39.7 million in POLR revenues in 2008 and less than 1% shopping (primarily commercial customers) experienced by Columbus & Southern for which it received $14.6 million in POLR revenues in 2008. Exhibit DMR 1.

produces incremental revenue opportunities to AEP as lost "retail" kWh sales provide opportunity "wholesale" kWh sales with potentially higher margins.

IV.

THE COMMISSION SHOULD REJECT AEP-OHIO'S ATTEMPTS TO RESTRICT PARTICIPATION IN PJM'S DEMAND RESPONSE AND INTERRUPTIBLE RATES' PROGRAMS

The OMA supports the position advanced by Constellation Energy Commodities Group witness David Fein that this Commission should reject AEP-Ohio's request of this Commission, permitting it to "prohibit" its Ohio retail distribution customers being served with generation by a competitive retail electric service provider from participating in PJM's Demand Response and Interruptible Rates Programs.

PJM's Demand Response and Interruptible Rates Programs are programs that provide payments to PJM program participants for interrupting their loads or otherwise reducing their capacity demands so as to permit PJM to maintain the reliability of its "grid" in lieu of imposing rolling blackouts. As an element of its ESP the companies seek to prohibit its distribution customers from directly participating in these PJM programs via their competitive retail electric service providers ("CRES"). The CRES, members of the PJM pool, act as brokers for their AEP distribution customers in accessing these PJM programs under long-term contracts. AEP asserts these programs are attractive to its distribution customers for they receive "credits" without having to actually interrupt. AEP's position misses the point. The benefit of interruptible customers rests in system planning and operations should a deficiency occur in generation.

While seeking to prohibit its customers from participating in these PJM programs on the one hand, AEP seeks to expand its retail interruptible tariff rider offerings from 10 MVA to 75

MVA, while acknowledging the current limit is not a constraint on the offering as only a handful of interruptible customers are currently being served. The availability of interrupting such load is of value to AEP-Ohio as it provides a basis for making off-system sales or, alternatively, avoiding purchasing power to meet firm load requirements. Thus, it would appear AEP-Ohio's objective is to expand the availability of interruptible service offerings to its customers for the purpose of capturing availability for itself the credits that are available to it as a member of the PJM pool.

The OMA is of the belief that the PJM program's generating capacity credits should be made available to the ultimate entity (customer) having the capacity and commitment to "shed" such interruptible load. The OMA believes that it is the "customer" that is shedding the IRP load and not the "supplier"[20] – (which has no obligation to meet that load) that is entitled to such credit. Whether the interruptible customer is receiving the benefit of that PJM originated "credit" in the interruptible rate being paid AEP-Ohio, as an IRP supplier, is a question for the Commission. In no event should a distribution service provider prohibit a CRES interruptible customer from the receipt of the PJM credit to which the customer is entitled and its CRES seeks to provide it.

V.

THE COMMISSION SHOULD REJECT AEP-OHO'S REQUEST FOR AUTHORIZATION TO SELL OR TRANSFER GENERATING ASSETS AND PURCHASED POWER CONTRACTS

As part of this admittedly "unique" ESP proceeding in which AEP-Ohio seeks to advance its transition to market, AEP-Ohio seeks authorization-in-a-void to sell, transfer, or otherwise dispose of valuable generating assets. The record herein fails to provide any justification

[20] Whether that supplier is AEP or CRES.

whatsoever for granting this request. First, the companies have no immediate plans to either transfer such assets to an affiliate or to sell them to a non-affiliate. As such, there exists a complete "void" as to the necessity or even the reasons underlying the request. Nor do the companies allege the potential benefits or detriments attendant to such a transfer or sale – or how those benefits or detriments would be shared, if at all, between customers and shareholders. Second, the Commission should not be called upon to commit a vain act, as it has been called upon in the past by AEP to provide it with authorization to transfer assets – only for AEP to choose not to exercise such authorization.

SB 221 requires electric distribution companies subject to the jurisdiction of the Commission to, once again, secure authority from the Commission before such companies dispose of potentially valuable assets. While this legislation does not set out specific standards to be met by electric distribution companies seeking to dispose of such assets, at a minimum it must be concluded the legislature required that the stated "objectives" of SB 221 must be shown to be satisfied before such authorization may be granted by the Commission. Otherwise, electric distribution companies would not have been required to first secure authorization from the Commission in advance of the transfer or sale of generating assets. AEP-Ohio has failed to tender any evidence that such requested transfer or sale of generating assets furthers the policy's objectives of the legislation. Accordingly, AEP-Ohio's request for such authorization should be denied.

VI.

THE COMMISSION SHOULD REJECT AEP-OHIO'S PROPOSED SIGNIFICANTLY EXCESSIVE EARNINGS' TEST

The companies have proposed that the Commission approve a "significantly excessive earnings test" ("SEET") in this non-cost based ESP proceeding, as a safeguard against ratepayers significantly overpaying for future electric service under rates to be established in this proceeding. AEP-Ohio advances a "statistically" based methodology sponsored by Dr. Makhija, Head of the Finance Department of the Ohio State University, which looks "backward" to ascertain whether the revenues already produced by customers' rates in a prior period were sufficiently excessive so as to produce "significantly" excessive earnings. Under such a "SEET," excessive earnings in the period under review are acceptable. It is only "significantly" excessive earnings that will permit the Commission to order a refund to customers. Under AEP-Ohio's proposal, the rates to be established herein – regardless of how significantly excessive the earnings produced therefrom maybe– would remain in place for two years, burdening customers for that period. The SEET would not be applied until 2010, measuring the earnings produced in the year 2009. If such earnings are found in 2010 to be excessive, it could be 2011 (the third year of the ESP) before customers could see any refunds.

In developing his recommended "methodology" Dr. Makhija did not consider either the rate or revenue "impact" his methodology would visit upon either the company or its customers. Instead, his attempt at developing a quantitative method for measuring significantly excessive earnings is simply a "statistical" exercise. It remains "silent" on the subjective weighting of comparable utilities versus non-utilities and the subjective identification of their respective financial and business risks. Applying Dr. Makhija's "SEET" to the year 2005, 2006, and 2007 would allow a return on equity to CSP of 21.19%, 22.59%, and 27.33% in those years – thus rendering CSP's 2007 return on equity of 23.7% well below the level Dr. Makhija's SEET would have required a refund. Regardless of the potential "academic" value Dr. Makhija's SEET may possess, the demonstrated results it produced for the illustrative years 2005-07 render it unacceptable for practical application in a *regulated business model* which relies upon costs.

Underscoring the questionable application of Dr. Makhija's SEET is the manner in which AEP-Ohio seeks to apply it -- to the combined returns of OP and CSP. Here, as on the issue of transferring or selling generation assets, there is no need for a decision to be made on this issue at this time, on less than a fully developed decision making base. The Commission should defer this issue to a study group, as recommended by its staff.

VII.

THE COMMISSION'S ORDER HEREIN SHOULD COMPLEMENT AEP'S REGULATION BASED "BUSINESS MODEL" WITH "COST-RELATED" RATES PARTICULARLY DURING TURBULENT ELECTRICITY MARKETS

The OMA submits that the AEP-Ohio companies have a partnership of historical proportions with its Ohio customers and Ohio regulators that have served all its "stakeholders" well. The development of this partnership rests in the fact that an extremely large portion of AEP's generating capacity within its Eastern Region's seven state footprint (comprised of the states of Michigan, Indiana, Ohio, Kentucky, West Virginia, Virginia, and Tennessee) is situated in Ohio. AEP-Ohio generating assets represents 12,179 MW or 48% of the entire Eastern Region's 25,350 MW[21] of generation.

[21] IEU, No. 7, p 20, 24, 28, 32, 36.

Of equal significance is the relationship of the AEP-Ohio's native loads to its native generating capacity. In the aggregate, the AEP-Ohio companies have been "long" on generation, meaning they possess greater generating capacity than their native peak load requirements, allowing for the sale of this long generating capacity to other AEP companies within its eastern footprint and to non-affiliates, as off-system sales. Ohio Power Company stands at the apex of this pyramid of long generation, with 55% of its generation being long in 2007.[22]

As revealed in the extensive cross-examination of AEP witness Craig Baker,[23] AEP is continuing to aggressively pursue its off-system sales opportunities both within and without the PJM pool while also looking to expand its access to the ancillary services market.[24] It is, in no small part, AEP-Ohio's "long" generating assets financed, paid for, and provided with a "return" by Ohio ratepayers[25] -- that make possible these profitable off-system sales. This also holds true with respect to the AEP-Ohio Companies equity interest in the Ohio Valley Electric Cooperative providing these AEP-Ohio companies the opportunity to purchase power at cost based rates and sell such power at market.[26]

This almost symbiotic partnership between AEP's Ohio shareholders, ratepayers, and regulators continues to this day. The sole new generating plant being constructed within the entire AEP Eastern Region's "footprint" is being sited in the State of Ohio.[27] This should come as no small surprise, given the high gross margins being enjoyed from the AEP-Ohio Companies' generation. The most recent financial report for the entire AEP system operations

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[22] 8,478 MW of generation; 5,485 MW system peak = 2,993 MW "long;" *Id* at pp 36, 38.
[23] Tr. Vol. X, p. 63-72.
[24] Tr. Vol. X, p. 114.
[25] Tr. Vol. X, p. 95.
[26] IEU Exhibit 8, p. 119.
[27] IEU Ex. No. 7, p. 87 – The $309 million 508 MW combined cycle Dresden, Ohio unit with a 2010 commercial operation date.

reveals its Ohio Companies have produced the highest gross generation margins on both the years 2007 and 2008.[28]

While these AEP-Ohio Companies' customers have continued to have the highest electric rates of all the adjacent states AEP customers, it is more likely than not that this dubious distinction would be amplified were this 50% + ESP based increase were to be authorized. It is no wonder that AEP witness Hamrock did not seek to find out how Ohio ratepayers' rates would compare to AEP's customers in its other adjacent states were this increase granted – *nor did he* look at the "impact" of this increase upon its Ohio customers.[29]

During the cross-examination of AEP's "policy witness" Mr. Hamrock, he acknowledged Ohio's economy has clearly changed since this ESP application was filed and that it is now a "critical" time for consumers as well as the company.[30] Upon inquiry into AEP's Chief Executive Officer's recent November 11, 2008 financial presentation to the Edison Electric Institute, Mr. Hamrock – citing the company's responsive action to the deteriorating economy – stated AEP is "well positioned" depending upon the length of the economic storm, and it could be lengthy.[31] Unfortunately, the same cannot be said for the companies' Ohio residential, commercial, or industrial!

While not highlighted in either the companies' ESP application or in its witnesses' pre-filed direct testimony, it is reasonably clear that AEP's corporate business model envisages an ever so small, deliberate, movement away from cost related rates! Company policy witness Hamrock described the companies' Ohio AEP plan, stating:[32]

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[28] IEU Ex. No. 2, p. 11; $46.8/MWH in 2007; $43.3/MWH in 2008.
[29] Tr. Vol. III, p. 121, 122.
[30] Tr. Vol. III, p. 104-107.
[31] Tr. Vol. III, p. 127 – 132. Cross-examination by the OMA.
[32] Tr. Vol. III, p. 98.

> "The company is not 'deliberately' using ESP as a *transition to* market."
>
> "I think the MRO is 'more clearly' a transition to market."
>
> "It's clearly a hybrid of continuing, to develop markets in Ohio as well as providing some aspects of 'cost-based regulation'."

Company witness Baker provides further insight as to the reasoning underlying AEP's "*regulated business model*." For example, AEP's past forays into unregulated natural gas markets was abandoned by it in favor of its core utility business:

> "We recognize that the weak results from our unregulated investments have been detrimental to overall corporate performance, but we are moving to address that." Said Susan Tomasky, AEP Executive Vice President and Chief Financial Officer. "*Our regulated utilities, the core of our business, are strong and stable with reliable earnings and cash flow.*"[33]
>
> [Emphasis supplied]

Perhaps AEP witness Baker best captured the essence of the company's business model, applicable to Ohio, when he described the company's continuing a transition of sorts to market, in recognition that rates in Ohio are understated relative to market …

"*But cost-based rates with retrofit for environmental will move Ohio to market.*"[34]

AEP witness Baker acknowledged that markets are once again in "turmoil" with downward "forward" prices for electricity and coal at AEP's Dayton Hub, which would argue well for a regulated cost-based ESP plan.

The OMA respectfully submits that the evidence of record establishing the healthiness of the currently returns on equity enjoyed by both CSP and OP under cost-related ratemaking warrants a much slower paced movement to market during the turbulent economic times Ohio is

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[33] IEU Ex. No. 4, p. 11.
[34] Tr. Vol. X, p. 138 – 140.

experiencing. AEP-Ohio's policy witnesses have acknowledged as much. The AEP-Ohio ESP should be rejected.

Respectfully submitted,

The Ohio Manufacturers' Association

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CERTIFICATE OF SERVICE

I hereby certify that this 30th day of December 2008, a copy of the foregoing Brief was served on all parties of record via electronic mail.

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