

FILE

EXHIBIT NO.

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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)	
)	
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)	

DIRECT TESTIMONY OF
PHILIP J. NELSON
ON BEHALF OF
COLUMBUS SOUTHERN POWER COMPANY
AND
OHIO POWER COMPANY

Filed: June 6, 2011

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4 THE PUBLIC UTILITIES COMMISSION OF OHIO
5 DIRECT TESTIMONY OF
6 PHILIP J. NELSON
7 ON BEHALF OF
8 COLUMBUS SOUTHERN POWER COMPANY
9 AND
10 OHIO POWER COMPANY
11 CASE NO. 08-917-EL-SSO
12 CASE NO. 08-918-EL-SSO

13 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

14 A. My name is Philip J. Nelson. My business address is 1 Riverside Plaza, Columbus,
15 Ohio 43215.

16 **Q. PLEASE INDICATE BY WHOM YOU ARE EMPLOYED AND IN WHAT**
17 **CAPACITY.**

18 A. I am employed as Managing Director of Regulatory Pricing and Analysis in the
19 Regulatory Services Department of American Electric Power Service Corporation
20 (AEPSC), a wholly owned subsidiary of American Electric Power Company, Inc.
21 (AEP). AEP is the parent company of Columbus Southern Power Company (CSP)
22 and Ohio Power Company (OPCo), referred to collectively as AEP Ohio, or the
23 Company.

24 **Q. ARE YOU THE SAME PHILIP J. NELSON THAT PROVIDED TESTIMONY**
25 **IN 2008 IN THESE PROCEEDINGS.**

26 A. Yes.

1 **PURPOSE OF TESTIMONY**

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

3 A. The purpose of my testimony is to provide a brief recap of my previous testimony in
4 this proceeding regarding the Commission's approval of carrying cost charges for
5 incremental 2001-2008 environmental investments; to confirm that those charges
6 recover carrying costs on the related investments; and to provide my understanding of
7 the specific provisions of R.C. 4928.143(B)(2) that support recovery of those carrying
8 costs. I also address the appropriate interest rate to apply to the refund, if any.

9 **RECAP OF MY TESTIMONY AND THE COMMISSION'S DECISION**

10 **REGARDING ENVIRONMENTAL CAPITAL CARRYING COST CHARGES**

11 **Q. PLEASE BRIEFLY RECAP YOUR PREVIOUS TESTIMONY AND THE**
12 **COMMISSION'S ORDERS ON THE ENVIRONMENTAL CAPITAL**
13 **CARRYING COST CHARGES?**

14 A. In my direct testimony (Cos. Ex. 7) filed on July 31, 2008, at pages 15-20, I
15 supported the Companies' request for capital carrying cost charges on environmental
16 investment. The annual carrying cost revenue requirement was developed for 2009-
17 2011 by applying an annual carrying cost rate for each company to its incremental
18 capital investment from January 1, 2001 through December 31, 2008. The
19 incremental investment was determined by deducting environmental investments
20 identified in the Rate Stabilization Plan (RSP) (Case No. 04-169-EL-UNC) and 4%
21 cases (Case Nos. 07-63-EL-UNC and 07-1132-EL-UNC, et cet.) from the total
22 investment for this period. The capital carrying cost rate was composed of the cost of
23 money (weighted average cost of capital), a depreciation component, an income tax

1 component, property and other taxes component and an administrative and general
2 component. It does not include direct O&M expenses. Beginning on page 5 of my
3 rebuttal testimony filed on December 8, 2008, in this case (Cos. Ex. 7B), I address
4 various criticisms made by the other parties.

5 The PUCO at page 28 of its March 19, 2009 Opinion and Order (ESP Order)
6 in this case approved the capital carrying costs for the 2001 through 2008 incremental
7 environmental investment as requested by the Companies and addressed the issues
8 raised by the intervenors. Various intervenors asked for rehearing, and the
9 Commission again ruled that the capital carrying cost charges were reasonable.

10 **REMAND DECISION**
11

12 **Q. WHY DID THE COURT SEND THIS ISSUE BACK TO THE COMMISSION**
13 **ON REMAND?**

14 A. Based on advice of counsel, it is my understanding that the Court remanded the
15 environmental capital carrying cost issue back to the Commission on a very narrow
16 and precise issue. The Court did not agree with the Commission's interpretation of
17 the phrase "without limitation" that appears in R.C. 4928.143(B)(2). The Court ruled
18 that this phrase applied only to the categories listed following (B)(2). As a result the
19 Court sent the capital carrying cost issue back to the Commission to "determine
20 whether any of the listed categories of (B)(2) authorizes recovery of environmental
21 carrying charges."

BASIS IN R.C. 4928.143(B)(2) FOR RECOVERY OF CARRYING COSTS ON ENVIRONMENTAL CAPITAL INVESTMENTS

Q. WHAT IS YOUR UNDERSTANDING OF THE SPECIFIC PROVISIONS OF R.C. 4928.143(B)(2) THAT PERMIT RECOVERY OF ENVIRONMENTAL CAPITAL CARRYING COSTS?

A. Based on advice of counsel, it is my understanding there are at least three bases in the ESP statute to support recovery of incremental environmental investment.

First, division (B)(2)(d) authorizes the Commission to establish “terms, conditions, or charges relating to ... carrying costs”. A second listed basis to support the recovery of environmental carrying costs is found in division (B)(2)(e) of the ESP statute. That provision authorizes automatic increases in any component of the standard service price. Another provision that supports the recovery of environmental carrying costs is division (B)(2)(b) of the ESP statute. Division (B)(2)(b), in pertinent part, allows inclusion in an ESP of a provision that provides cost recovery “for an environmental expenditure for an electric generating facility of the [EDU], provided the cost is incurred or the expenditure occurs on or after January 1, 2009”.

Q. PLEASE EXPLAIN THE NATURE OF THE ENVIRONMENTAL COSTS THAT THE COMPANIES HAVE COLLECTED PURSUANT TO THE COMMISSION’S ESP ORDER AND CONTINUE TO COLLECT (SUBJECT TO REFUND).

A. As I explained in my prior testimony in this case, and my testimony above, those charges recover the ongoing (post December 31, 2008) carrying costs incurred on incremental capital investments the Companies made during 2001-2008. Exhibit PJN-8

1 of my direct testimony filed on July 31, 2008 provides the basis of the carrying costs
2 that became a component of the Companies' current SSO base generation rate.

3 **APPROPRIATE INTEREST RATE FOR ANY REFUNDS**

4 **Q. THE COMMISSION IN ITS MAY 25, 2011 ENTRY ASKED THE COMPANY**
5 **TO ADDRESS WHAT THE APPROPRIATE INTEREST RATE WOULD BE**
6 **TO APPLY TO REFUNDS, IF ANY. WHAT IS THE COMPANIES'**
7 **RECOMMENDATION?**


8 **A.** The Companies believe that the minimum rate applied to customer deposits set out in
9 Chapter 4901:1-17-05 of the Ohio Administrative Code would be an appropriate rate
10 for any refund that may be ordered. That interest rate is 3%..

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A.** Yes it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of Columbus Southern Power Company's and Ohio Power Company's Remand Testimony of Philip J. Nelson was served by electronic mail upon counsel identified below this 6th day of June, 2011.



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