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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan.	))))))	Case No. 11-346-EL-SSO Case No. 11-348-EL-SSO
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority	))))	Case No. 11-349-EL-AAM Case No. 11-350-EL-AAM

DIRECT TESTIMONY OF

MATHEW J. MOREY

ON BEHALF OF

THE COMPETE COALITION

Filed: July 25, 2011

INDEX TO DIRECT TESTIMONY OF MATHEW J. MOREY

I. Introduction and Qualifications

Q. PLEASE STATE YOUR NAME, AND BUSINESS ADDRESS

A. My name is Mathew J. Morey. My business address is 800 University Bay Drive, Suite 400, Madison, Wisconsin.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Christensen Associates Energy Consulting, LLC as a Senior Consultant.

Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I received my doctorate in economics and statistics from the University of Illinois in 1977, and taught economics and econometrics for nearly twenty years. During that time, I also worked as a consultant to companies in and regulators of the telephone, natural gas, and electricity industries. I served as Director of Economics at the Edison Electric Institute from 1996 to 2000. Prior to joining Christensen Associates in 2003, I was an independent consultant to companies in the electricity industry both in the U.S. and Canada.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of the COMPETE Coalition. The COMPETE Coalition consists of more than 570 electricity stakeholders—customers, suppliers, generators, transmission owners, trade associations, environmental organizations, and economic development corporations—all of whom support well-structured competitive electricity markets for the benefit of our country.

Q. PLEASE DESCRIBE INSTANCES IN WHICH YOU HAVE PREVIOUSLY PROVIDED TESTIMONY.

A. I have testified before state and federal regulatory agencies, including the Federal Energy Regulatory Commission (FERC), on a wide range of electric industry issues including stranded costs, market power, seams elimination cost adjustment charges, utility codes of conduct, utility affiliate transfer pricing rules, distribution standby and transmission rate design, the costs and benefits of membership in Regional Transmission Organizations (RTOs), and the economic advantages and disadvantages of independent coordinators of transmission. A complete list of my appearances is provided in Exhibit MJM-1.

Q. HAVE YOU TESTIFIED IN PROCEEDINGS BEFORE THE PUBLIC UTILITY COMMISSION OF OHIO (COMMISSION) PREVIOUSLY?

A. No.

II. Purpose and Organization of Testimony

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING WITH RESPECT TO AEP OHIO'S[1] ELECTRIC SECURITY PLAN (ESP) APPLICATION?

A. The purpose of my testimony is to respond to the various AEP Ohio witnesses who support the imposition of a variety of non-bypassable generation-related riders. Specifically, I address issues associated with the proposed Generation Resource Rider (GRR) and the Environmental Investment Carrying Cost Rider (EICRR), both of which AEP Ohio has requested to make non-bypassable. AEP Ohio has proposed to establish a GRR as a placeholder for future generation investment. The EICCR, which is currently

[1] "AEP Ohio" refers to Columbus Southern Power Company (CSPCo) and Ohio Power Company (OPCo), collectively.

bypassable, will continue to recover costs from previous environmental retrofit projects at AEP Ohio generation facilities and be established as a placeholder for future generation-related environmental investments for which no cost information has been provided. Because I find the proposals regarding these riders problematic, my testimony focuses on those AEP Ohio witnesses—Hamrock, Nelson, Godfrey, Moore, Roush, Kelley, and Thomas—who provide direct and supplemental direct testimony in support of these proposals.

Q. WHAT ISSUES RAISED BY AEP OHIO'S ESP FILING AND WITNESSES DOES YOUR TESTIMONY ADDRESS?

A. My testimony explains that the establishment of AEP Ohio's proposed non-bypassable generation-related riders will:

- Erect a barrier to the ability of customers to realize the benefits of lower competitive market rates;
- Unfairly increase rates for shopping customers that would, under certain circumstances, drive them back to Standard Service Offer (SSO), thereby undermining the competitive retail market by driving existing Competitive Retail Electric Service (CRES) providers out of the market and discouraging other CRES providers from entering the market;
- Create an anticompetitive cross subsidy from shopping customers in the competitive retail market to AEP Ohio's SSO customers;
- Create an unfair competitive advantage for AEP Ohio in its retail market; and

- Create an unfair competitive advantage for AEP Ohio in the development of generation that will discourage alternatives, such as merchant plant development and growth of customer demand response resources in AEP Ohio's service territory.

My testimony also explains that AEP Ohio is incorrect in asserting or implying:

- the proposed ESP with non-bypassable GRR and EICCR meets and satisfies the statutory requirements of Ohio R.C. 4928.143;
- its generation and environmental compliance investments face unique risks that require assurance of cost recovery in the form of non-bypassable GRR and EICCR;
- without an ironclad assurance that its future generation investments will be recovered from all distribution customers in the form of non-bypassable riders, it may not be able to make such investments, and it may retire older uneconomic coal plants; and
- without these non-bypassable riders, Ohio and AEP Ohio's customers may be harmed by Ohio's becoming a net importer of energy.

My testimony addresses the foregoing assertions by AEP Ohio and shows them to be groundless or incorrect.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. Section III presents a summary of my conclusions and recommendations to the Commission. Sections IV through VI provides a detailed description of my assessment of the economic problems associated with the proposed non-bypassable generation related riders. Section VII explains why AEP Ohio's ESP filing fails to satisfy the statutory requirements for allowing non-bypassable generation cost recovery riders. Section VIII reviews the lack of cost data for planned generation investment that the Commission needs to assess the impact of non-bypassable generation-related riders. Section IX explains why AEP Ohio's planned generation investments do not face extraordinary risks that would necessitate non-bypassable riders. Section X notes that the Commission has established a policy that denies non-bypass provisions that recover generation costs from customers that are not served by that generation. Section XI points out that no other state imposes non-bypassable riders to recover the full costs of generation investments. Section XII explains why allowing generation-related riders to be non-bypassable sets a bad policy precedent for Ohio and for other states. Section XIII explains how non-bypassable riders act like a tax. Section XIV offers conclusions and recommendations.

III. Summary of Findings, Conclusions and Recommendations

Q. WHAT ARE YOUR RECOMMENDATIONS TO THE COMMISSION?

A. I make the following recommendations to the Commission:

- The Commission should reject AEP Ohio's request to establish the GRR because it will unnecessarily raise rates and become a barrier to customers' ability to switch to CRES providers.

- If the Commission finds the GRR to be justified, it should deny granting non-bypassable status to the GRR and make it bypassable for customers that switch to CRES providers.
- The Commission should deny AEP Ohio's request to make the EICCR non-bypassable and keep it bypassable for customers that switch to CRES providers.

Q. WHAT REASONS DO YOU OFFER FOR MAKING THESE RECOMMENDATIONS TO THE COMMISSION?

A. I oppose the creation of the GRR because I do not see evidence presented by AEP Ohio that it is needed within the context of or the lifetime of AEP Ohio's ESP. I oppose a non-bypassable GRR and a non-bypassble EICCR because such surcharges are unfair to AEP Ohio's customers, create unfair competitive advantages for AEP Ohio, and undermine the benefits of competitive retail and wholesale markets. I will explain each of these points in my testimony.

AEP Ohio asks the Commission to establish a non-bypassable GRR as a "placeholder" for cost recovery, which, over the long term, could be significant in view of the projected investment presented in AEP-East's 2010 Integrated Resource Plan (2010 IRP). However, AEP Ohio has not provided any specific cost information for generation or environmental compliance investments during the life of the proposed ESP (or beyond) that would enable the Commission to reasonably assess the economic impacts of allowing such a non-bypassable GRR or a non-bypassable EICCR.

Q. DO ANY STATUTORY REQUIREMENTS ADDRESS THE IMPOSITION OF NON-BYPASSABLE GENERATION-RELATED RIDERS?

A. Yes. Although I am not a lawyer, it is my understanding that, in order to justify a non-bypassable generation-related rider, the electric distribution utility has to satisfy the following requirements:[2]

1. Establish the need for the generation facility;
2. Establish that the facility was sourced through a competitive process; and
3. Establish that the electric distribution utility shall dedicate to Ohio consumers the capacity and energy and the rate associated with the cost of that facility.

Q. ARE YOU OF THE VIEW THAT AEP OHIO HAS SATISFIED THESE REQUIREMENTS UNDER THE OHIO STATUTE?

A. No. AEP Ohio has failed to meet the required statutory conditions for the adoption of its proposals for non-bypassable riders as per Ohio R.C. 4928.143. AEP Ohio has failed to demonstrate that the GRR or the EICCR satisfy any of these conditions, which were

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[2] Section 4928.143(B)(2)(c) provides the following: "The establishment of a non-bypassable surcharge for the life of an electric generating facility that is owned or operated by the electric distribution utility, was ***sourced through a competitive bid process*** subject to any such rules as the commission adopts under division (B)(2)(b) of this section, and is newly used and useful on or after January 1, 2009, which surcharge shall cover all costs of the utility specified in the application, excluding costs recovered through a surcharge under division (B)(2)(b) of this section. ***However, no surcharge shall be authorized unless the commission first determines in the proceeding that there is need for the facility based on resource planning projections submitted by the electric distribution utility. Additionally, if a surcharge is authorized for a facility pursuant to plan approval under division (C) of this section and as a condition of the continuation of the surcharge, the electric distribution utility shall dedicate to Ohio consumers the capacity and energy and the rate associated with the cost of that facility.*** Before the commission authorizes any surcharge pursuant to this division, it may consider, as applicable, the effects of any decommissioning, deratings, and retirements." Emphasis Added.

established to protect customers from anti-competitive subsidies. Therefore, the proposals for these riders should be rejected.

Q. WHAT ARE YOUR CONCERNS BEYOND THIS FAILURE TO MEET THE OHIO STATUTORY REQUIREMENTS?

A. Setting aside AEP Ohio's failure to satisfy the statute's requirements, AEP Ohio has not demonstrated that its future generation and environmental compliance investments are facing extraordinary risks that require such drastic steps as an ironclad guarantee of recovery of all costs from AEP Ohio's distribution customers. Competitive electricity markets shift cost recovery risks to shareholders and away from customers; and AEP Ohio's proposals seek anti-competitive protections for its shareholders at the expense of ratepayers.

IV. Non-bypassable Generation-Related Riders Are Unfair to Customers

Q. HOW ARE NON-BYPASSABLE GENERATION-RELATED RIDERS UNFAIR TO AEP OHIO'S CUSTOMERS?

A. The proposed non-bypassable generation-related riders in AEP Ohio's proposed ESP would be assessed to customers, regardless of whether they took service from AEP Ohio or from other CRES providers. In other words, all customers would be forced to pay for a share of AEP Ohio's generation investments, even if such customers do not receive services from that generation.

Q. WOULD NON-BYPASSBLE RIDERS IMPOSED ON SHOPPING CUSTOMERS CREATE AN ANTICOMPETITIVE SUBSIDY FROM THE COMPETITIVE MARKET TO THE REGULATED MARKET?

A. Yes. Non-bypassable riders that are designed to recover generation-related costs from all AEP Ohio's customers, including shopping customers, provide an anticompetitive subsidy from the competitive retail market to the regulated market. Through its order in the Duke Market Rate Offer (MRO) case (Duke MRO Order), the Commission has established a policy, consistent with R.C. 4928.02(H), that it will not approve riders that cause costs to be borne by customers who do not take generation service from the utility or that create anticompetitive subsidies between competitive and regulated markets.[3] Therefore, it should not approve the request to make Riders GRR and EICCR non-bypassable. Such an anticompetitive outcome would be the opposite of what was intended by state policy as articulated in R.C. 4928.02(H), the purpose of which is to promote competitive retail markets and economic development in Ohio. As R.C. 4928.02(H) states:

> It is the policy of this state to... Ensure effective competition in the provision of retail electric service by avoiding anticompetitive subsidies flowing from a noncompetitive retail electric service to a competitive retail electric service or to a product or service other than retail electric service, and vice versa, including by prohibiting the recovery of any generation-related costs through distribution or transmission rates...

[3] Public Utilities Commission of Ohio, In the Matter of Application of Duke Energy Ohio, Inc. for Approval of a Market Rate Offer to Conduct a Competitive Bidding Process for a Standard Service Offer Electric Generation Supply, Accounting Modifications, and Tariffs for Generation Service, Case No. 10-2586-EL-SSO. (Duke MRO Order), February 23, 2011.

Q. WOULD THE NON-BYPASSABLE NATURE OF THE GRR AND EICCR UNFAIRLY AND INAPPROPRIATELY SHIFT RISKS ASSOCIATED WITH AEP OHIO'S GENERATION INVESTMENTS FROM SHAREHOLDERS TO BOTH SSO AND SHOPPING CUSTOMERS?

A. Yes. Making the GRR and EICCR non-bypassable means that whatever costs AEP Ohio incurs for new generation and environmental compliance will be passed through to all customers served by AEP Ohio. Furthermore, these costs will grow substantially over time, so what begins as a small surcharge now will eventually become a large surcharge. In particular, the 2010 IRP contemplates expenditures on new generation and environmental compliance over the next decade that could range from $5.5 billion to $11 billion. If such investment costs are borne by AEP Ohio customers roughly in proportion to their load ratio share of the total energy served to AEP East companies[4] customers, which is approximately 42%, all AEP Ohio customers, even those that switch to a CRES provider, would be charged for roughly $2.3 billion to $4.6 billion over the life of those investments.

For the Commission to find AEP Ohio's arguments in favor of the proposed non-bypassable riders compelling, it must accept the implicit notion that, without an ironclad guarantee of recovery, such investments will be stranded in competitive wholesale and retail markets, and that such stranding justifies imposing non-bypassable charges on all AEP Ohio customers.

[4] "AEP East companies" include Appalachian Power Company (APCo), Columbus Southern Power Company (CSPCo), Indiana & Michigan Power Company (I&M), Kentucky Power Company (KPCo) and Ohio Power Company (OPCo).

Absolute guarantees of cost recovery for firms operating in competitive markets do not exist. Competitive market risks—sales volume (i.e., demand) risk, input price risk, and sales price risk—are best managed by the company and its shareholders.

Q. CAN YOU PROVIDE AN ESTIMATE OF THE COMBINED INCREMENTAL RATE IMPACT OF AEP EAST COMPANIES PLANNED INVESTMENT IN GENERATION AND ENVIRONMENTAL COMPLIANCE FOR AEP OHIO'S CUSTOMERS IF THE NON-BYPASSABLE GENERATION-RELATED RIDERS ARE APPROVED?

A. Yes. If the planned generation and environmental compliance investment costs presented in the 2010 IRP are realized, I estimate that the incremental rate impact will rise from about $0.29 per MWh in 2012 to about $5.43 per MWh in 2020. In the early years of the resource plan to which the proposed ESP will apply, the impact will be small. Nonetheless, if the investment plan presented in the 2010 IRP is carried out, the incremental impact will grow to be quite large. This incremental impact would thus be a sizeable anticompetitive subsidy from the competitive market to the regulated market.

Q. WHAT IS THE BASIS FOR YOUR ESTIMATED INCREMENTAL RATE IMPACT?

A. As the source for investment cost data over the period 2012 to 2020, I used the 2010 IRP, Supplemental Appendix 2, Exhibit 12-4, "Incremental Capital Spending Impact of the IRP." I excluded capital spending for AEP's operating companies that are not part of AEP East. I also excluded capital spending listed in the exhibit for AEP Generation, Carbon Capture, and Dry Fly Ash. I used a weighted average cost of capital (WACC) of

11.77%, which is a pre-tax value that I obtained from AEP Ohio witness Hawkins' testimony.[5] I assumed that capital costs will be amortized over thirty years.

I obtained the energy forecast (MWh) for CSPCo and OPCo for the ESP period from the Supplemental Appendix 1, Exhibit 1 in the Supplement to the 2010 Long-Term Forecast Report (2010 LTFR), and the energy forecast (MWh) for the AEP East companies from the 2010 IRP, Supplemental Appendix 2, Exhibit 4-2. From those two forecasts, I was able to compute AEP Ohio's load ratio share of the AEP East companies total energy forecast and thereby estimate AEP Ohio's load ratio share of the incremental capital costs of the planned generation investment. The incremental rate impact ($/MWh) was derived by dividing the annual incremental capital cost share by the forecast annual energy served (MWh) for AEP Ohio. I made this calculation for AEP Ohio with shopping load included and without.

Q. HAS AEP OHIO SHOWN THAT THE BENEFITS DERIVED FOR ANY PURPOSE FOR WHICH THE GRR SURCHARGE IS ESTABLISHED ARE RESERVED AND MADE AVAILABLE TO THOSE THAT WOULD BE EXPECTED TO BEAR THE SURCHARGE?

A. No. As R.C. 4928.143 Section C(1) states,

> ...if the commission so approves an application that contains a surcharge under division (B)(2)(b) or (c) of this section, the commission shall ensure that the benefits derived for any purpose for which the surcharge is established are reserved and made available to those that bear the surcharge. Otherwise, the commission by order shall disapprove the application.

[5] Direct Testimony of Renee V. Hawkins On Behalf of Columbus Southern Power Company and Ohio Power Company, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO, p. 5.

Establishing non-bypassable provisions for the surcharges collected through the GRR and the EICCR means that customers leaving AEP Ohio's Electric Distribution Utility (EDU) SSO service for a competitive electric service provider would be paying for generation capacity, operation and maintenance (O&M) costs, capital carrying costs, and lease costs for facilities from which they are not receiving benefits. This would violate Section C(1). Nonetheless, such customers are not receiving benefits directly from these facilities for the period of time they are served by a CRES provider and should not be required to pay for them until such time, if ever, that they choose to return to the EDU's SSO service, at which time they should pay for the option of being able to return. Therefore, establishing a non-bypassable GRR or EICCR would clearly violate Section C(1) of SB 221, and thus the Commission must reject the request for these riders to be non-bypassable.

V. Non-bypassable Generation-Related Riders Create Unfair Competitive Advantages for AEP Ohio

Q. WOULD MAKING THE GRR AND EICCR NON-BYPASSABLE CREATE AN UNFAIR COMPETITIVE ADVANATAGE FOR AEP OHIO IN SELLING TO RETAIL CUSTOMERS?

A. Yes. As proposed by AEP Ohio for this ESP, non-bypassable generation-related riders create an economic barrier for customers to switch to lower-cost CRES providers. With such riders, shopping customers would effectively pay twice for their generation services, once for their competitively supplied energy and then again for AEP Ohio's share of the AEP-East companies planned generation investments through the non-bypassable charges.

The non-bypassable generation-related surcharges may sometimes raise the effective rate that shopping customers pay above the market rate. If the surcharges raise the effective CRES provider rate sufficiently above the SSO rate, shopping customers will be driven back to SSO. Existing SSO customers will have no economic motivation to shop if the effective market rate is artificially raised above the SSO rate. This gives AEP Ohio an unfair competitive advantage in the retail market.

Q. WOULD MAKING THE GRR AND EICCR NON-BYPASSABLE CREATE AN UNFAIR COMPETITIVE ADVANTAGE FOR AEP OHIO WITH RESPECT TO GENERATION DEVELOPMENT?

A. Yes. If the GRR and the EICCR are made non-bypassable, AEP Ohio, unlike other generation firms, will be able to develop its generation facilities virtually risk-free, recovering all of its costs plus a return on capital through a non-bypassable surcharge on all AEP Ohio retail load, including SSO customers and all customers served by CRES providers. No other generation developer would have such an advantage. Competitive generation firms will see that the competitive playing field for generation development is not level and is undermined by regulated facilities paid for by virtually captive customers. This will have a chilling effect on merchant generation investment and send capital that would have otherwise been invested in merchant generation in Ohio to other states where it will receive fair treatment.

VI. Non-bypassable Generation-Related Riders Undermine the Benefits of Competitive Retail and Wholesale Markets

Q. WOULD MAKING THE GRR AND EICCR NON-BYPASSABLE DILUTE THE BENEFITS OF CUSTOMER CHOICE IN AEP OHIO'S TERRITORY?

A. Yes. Because of the pro-competition law that the Ohio legislature previously passed (i.e., R.C. Chapter 4928.), Ohio retail electricity customers, including those of AEP Ohio, have been empowered to make their own energy purchase decisions. In AEP Ohio's territory, they have begun to take advantage of that ability, as illustrated by the switching percentages presented by AEP Ohio witness Thomas that show that, as of 2010, approximately 4% of AEP Ohio territory load (MWh) was being supplied by lower-cost CRES providers.[6] When monopoly utility companies build, own, and operate generation, and are allowed to recover the costs of those facilities through a non-bypassable surcharge that is equivalent to a tax on all electricity consumption, the value of customer choice is automatically diluted and the benefits of competitive retail markets are eroded.

Q. WOULD NON-BYPASSABLE GENERATION-RELATED RIDERS PROMOTE COMPETITIVE RETAIL AND WHOLESALE MARKETS?

A. No, quite the opposite. Ohio has encouraged retail electricity customers to make better energy choices through its reliance on competitive markets, and has and will continue to

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[6] Direct Testimony of Laura J. Thomas On Behalf of CSPCo and OPCo, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO, Exhibit LJT-3, Page 2. Thomas's workpapers show that, as of November 2010, 3.75% of AEP Ohio's service territory load (MWh) was supplied by CRES providers. The most recent report for the fourth quarter of 2010, prepared by the Commission's Division of Market Monitoring and Assessments, *Summary of Switch Rates from EDUs to CRES Providers in Terms of Sales for the Month Ending December 31, 2010*, shows AEP Ohio's CRES providers serving 3.01% of the total MWh served to AEP Ohio distribution customers.

encourage non-utility developers and CRES providers to risk investing in generation resources. Allowing non-bypassable riders for generation investment would be a step backward to a hybrid monopoly model that requires all customers, shopping and non-shopping, to pay for generation investments regardless of the actual benefit received from such generation investment. Such riders would thereby undermine long-established Ohio energy policy that has already achieved a reasonable degree of success in other parts of Ohio, such as in the service territories of FirstEnergy and Duke Energy Ohio. Specifically, according to Exhibit LJT-3, the percentages of MWh served by CRES providers by the third quarter of 2010 exceeded 60% for FirstEnergy, was nearly 60% for Duke Ohio, and was nearly 40% for Dayton Power & Light.[7]

To the extent that a guarantee of full cost recovery for AEP Ohio's share of the AEP East companies' generation investment discourages merchant development of economic conventional and renewable resources in Ohio, it reduces competition in the wholesale market and undermines the benefits that can flow ultimately from that market to the retail market and AEP Ohio's customers.

Q. WOULD THE NON-BYPASSABLE GENERATION-RELATED RIDERS HAVE AN IMPACT ON ECONOMIC DEVELOPMENT AND HENCE ON JOBS IN THE AEP OHIO SERVICE TERRITORY?

A. Yes. A non-bypassable rider, which functions like a tax, will definitely have an impact on job growth in AEP Ohio's service territory. Businesses, in making locational decisions, take into consideration their total energy bill, and would compare a potential AEP Ohio bill that included non-bypassable generation-related charges to potential

[7] *Id.*, p. 2.

energy bills in other Ohio jurisdictions or in other states. Non-bypassable generation-related riders of the magnitude contemplated under the proposed ESP and the 2010 IRP, even if AEP's most modest investment plan were to be implemented, could easily discourage new industrial and business investment in the state, or at least in AEP Ohio's service territory.

VII. The Requirements of Ohio R. C. 4928.143 Have Not Been Satisfied by AEP Ohio's ESP Filing

Q. WHAT REQUIREMENTS DOES OHIO R.C. 4928.143 IMPOSE ON THE APPLICANT REGARDING ITS ESP FILING AND THE CREATION OF NON-BYPASSABLE GENERATION-RELATED RIDERS?

A. Ohio R.C. 4928.143 states that the EDU bears the burden of proof that the ESP satisfies the statute. It states in Section C(1): "The burden of proof in the proceeding shall be on the electric distribution utility." Furthermore, Section B(2)(c) provides the following:

> The establishment of a nonbypassable surcharge for the life of an electric generating facility that is owned or operated by the electric distribution utility, was sourced through a competitive bid process subject to any such rules as the commission adopts under division (B)(2)(b) of this section, and is newly used and useful on or after January 1, 2009, which surcharge shall cover all costs of the utility specified in the application, excluding costs recovered through a surcharge under division (B)(2)(b) of this section. However, no surcharge shall be authorized unless the commission first determines in the proceeding that there is need for the facility based on resource planning projections submitted by the electric distribution utility. Additionally, if a surcharge is authorized for a facility pursuant to plan approval under division (C) of this section and as a condition of the continuation of the surcharge, the electric distribution utility shall dedicate to Ohio consumers the capacity and energy and the rate associated with the cost of that facility. Before the commission authorizes any surcharge pursuant to this division, it may consider, as applicable, the effects of any decommissioning, deratings, and retirements.

In other words, for the Commission to authorize a non-bypassable rider to recover costs for a facility, AEP Ohio must show that: i) the facility was sourced through a competitive bid process; ii) there is a need for the facility that is determined through a resource planning proceeding; and (iii) the energy and capacity from the facility subject to the surcharge is dedicated[8] to Ohio consumers.

Q. HAS AEP OHIO'S ESP FILING SATISFIED THE REQUIREMENTS OF OHIO R.C. 4928.143?

A. No. AEP Ohio has failed to meet all three of these requirements for both the GRR (with respect to its creation and non-bypassable status), and the EICCR (with respect to non-bypassable status). Therefore, the GRR should be rejected outright, and if not rejected, should, at a minimum, be made bypassable. Likewise the EICCR should remain bypassable.

Q. HAS AEP OHIO DEMONSTRATED THAT THE TURNING POINT SOLAR PROJECT INVESTMENT COSTS THAT WOULD BE RECOVERED THROUGH A NON-BYPASSABLE GRR WOULD BE "SOURCED THROUGH A COMPETITIVE BID PROCESS" AS REQUIRED BY 4928.143(B)(2)(c)?

A. No. The Turning Point Solar project (Turning Point Project) is the only facility that AEP Ohio requests in its proposal specifically be covered under the non-bypassable GRR for this proposed ESP. Nonetheless, AEP Ohio has not demonstrated that it has been sourced through a competitive bid process. On the contrary, AEP Ohio's witness Nelson, in response to an Exelon Generation Company, LLC (Exelon) discovery question [INT-1-023] indicates that the Turning Point Project has been procured through a non-competitive process when he states: "Please see Exelon INT 1-023 for AEP Ohio's

[8] 4928.32(B)(2)(c) defines the third requirement as "the electric distribution utility shall dedicate to Ohio consumers the capacity and energy and the rate associated with the cost of that facility."

standard operating procedure for procurement related to construction of generating facilities."[9]

Relying on AEP Ohio's standard operating procedure for procurement of construction of generating facilities provides no assurance that AEP Ohio will not make uneconomic investments or that cheaper alternatives are not available from competing suppliers. This kind of a process does not equate to the kind of open competitive process applied in the case of energy procurement auctions.

Q. HAS AEP OHIO'S SUPPLEMENTAL TESTIMONY DEMONSTRATED THAT THE TURNING POINT PROJECT WOULD BE "SOURCED THROUGH A COMPETITIVE BID PROCESS" AS REQUIRED BY 4928.143 (B)(2)(c)?

A. No. AEP Ohio's witness Godfrey, in supplemental direct testimony, states that the developer and AEP Ohio plan to competitively bid the major construction activities of the Turning Point Project.[10] The process of competitively bidding the major construction activities of the Turning Point Project is not the same thing as competitively bidding to obtain the lowest cost generation resource. Competitive bidding of major construction activities does not provide the same level of transparency that can be achieved through competitive bidding processes overseen by the Commission for power procurement auctions for SSO service as part of an Energy Security Plan.

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[9] Columbus Southern Power Company's and Ohio Power Company's Responses to Exelon Generation Company LLC's Discovery Request, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO, First Set, INT-1-023.

[10] Supplemental Direct Testimony of Jay F. Godfrey on Behalf of Columbus Southern Power and Ohio Power Company, p. 9.

Q. HAS AEP OHIO DEMONSTRATED THAT ANY OTHER GENERATION INVESTMENT WOULD BE "SOURCED THROUGH A COMPETITIVE BID PROCESS" AS REQUIRED BY 4928.143 (B)(2)(c)?

A. No. AEP Ohio's proposed ESP appears to identify no other potential generation investment that it might make over the life of this ESP to satisfy the requirements of R.C. 4928.143 with respect to competitive bid processes. AEP Ohio apparently plans no other conventional generation investment for the next three years. For example, the 2010 IRP, Exhibit 9-1, at page 88,[11] shows four generation planning scenarios, none of which have a new power plant coming on line before the 2018-19 time period. Additional portfolios tested and reported in Exhibit 9-2 show new generation coming on line as early as the 2015-16 time period, for the "Retirement Transformation Plan" scenario, in which AEP East companies "accelerate(s) all 'fully' exposed unit retirements to 2016."[12]

To allow the GRR at all, let alone to authorize it to be non-bypassable, requires that there be some definite, concrete demonstrations of competitive sourcing, of need, and of dedication to serving AEP Ohio customers. AEP Ohio has not provided such demonstrations. It seeks Commission approval for a non-bypassable GRR based on promises that AEP Ohio's future facilities will somehow satisfy the requirements of R.C. 4928.143, and on threats that the "sky will fall" if the Commission does not approve the non-bypassable GRR. AEP Ohio effectively asks the Commission to hand it a "blank

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[11] Found on p. 112 of 169 of Supplemental Appendix 2, Supplement to the 2010 Long-Term Forecast Report, to the Public Utilities Commission of Ohio, Ohio Power Case No. 10-501-EL-FOR and Columbus Southern Case No. 10-501-EL-FOR.

[12] See p. 113 of 169 of Supplemental Appendix 2, Supplement to the 2010 Long-Term Forecast Report to the Public Utilities Commission of Ohio, Ohio Power Case No. 10-501-EL-FOR and Columbus Southern Case No. 10-501-EL-FOR.

check" allowing AEP Ohio the ability to determine based on in its "sole" discretion what the least-cost alternative is to serve AEP Ohio consumers.

Q. HAS AEP OHIO SHOWN THAT GENERATION FACILITIES FUNDED THROUGH THE GRR ARE NEEDED AS REQUIRED BY R.C. 4928.143?

A. No. AEP Ohio's 2010 LTFR and 2010 IRP indicate that AEP Ohio will be long in capacity well beyond the life of this ESP. The 2010 IRP indicates that even if AEP Ohio retires some 5,000 to 6,000 MW of old uneconomic generation plants, it will still have sufficient capacity to serve load and meet the PJM reserve requirements through at least 2018-2019.[13]

The showing of need for a generation facility must be determined by the Commission in this proceeding based on resource planning projections submitted by AEP Ohio. While AEP Ohio may have submitted a request for approval of its plans to enter into a lease agreement for the Turning Point Project, AEP Ohio has not provided the Commission with resource planning projections so that it can make its determination of need in this proceeding.[14]

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[13] The 2010 IRP at p. 39 states that "[i]n spite of this potential (the retirement of 6,000MW), this AEP-East IRP requires no new baseload capacity resources in the forecast period. Rather, the proposed EPU initiative at the Cook Station during the 2014-2018 time period and peaking resources required in 2017 and 2018, in addition to wind purchases and DSM are proposed to be added to maintain anticipated minimum PJM nominal (capacity) reserve margin requirements (approximately 15.5% increasing to 16.2%) as well as system reliability/restoration needs. Additional natural gas-fired peaking and intermediate capacity would be added after 2020 to meet future load obligations."

[14] AEP Ohio has explained that instead of making a showing of need in this proceeding, it has made filings in other dockets -- Case Nos. 10-501-EL-FOR and 10-502-EL-FOR -- that have not been decided by the Commission.

The Renewable Portfolio Standard (RPS) provisions of R.C. 4928.64 clearly obligate AEP Ohio to secure a percentage of its energy from solar resources within the timeframe of the proposed ESP to serve its Ohio retail customers.[15] However, satisfying this regulatory requirement is a qualitatively different issue than whether there is a need generally for generation as shown through resource planning projections (which there is not). I could find no evidence in the AEP Ohio filing that would support the argument that the Turning Point Project is necessary to satisfy resource planning requirements.

Q. HAS AEP OHIO'S SUPPLEMENTAL DIRECT TESTIMONY PROVIDED A DEMONSTRATION THAT GENERATION FACILITIES SUCH AS THE TURNING POINT PROJECT ARE NEEDED AS REQUIRED BY R.C. 4928.143?

A. No. AEP Ohio witness Roush states that the Turning Point Project will contribute to meeting the annually increasing solar benchmarks established in SB 221.[16] However, putting aside the fact that this is not the "need" required by 4928.143, I find no evidence provided in AEP Ohio testimony, direct or supplemental, that the Turning Point Project is needed, or in other words necessary, to satisfy the annually increasing solar benchmarks established in SB 221.

AEP Ohio witness Godfrey states "the Company needs a total of approximately 100 MW of solar resources to be online by 2020."[17] But this fact alone does not translate to a need for the Turning Point Project, only a need to develop solar resources over the next nine years. This is not a showing of need. Godfrey's testimony does not provide

[15] The solar resource benchmark is 0.15% by 2015.

[16] Supplemental Direct Testimony of David M. Roush on Behalf of Columbus Southern Power and Ohio Power Company., p.2.

[17] *Id.*, p. 18.

support for the requirement in SB 221 that AEP Ohio must show a need for this plant. In addition, I find no evidence that AEP Ohio has sought lower-cost alternatives to satisfy its obligation under SB 221. The Commission should require AEP Ohio to provide a demonstration that resources are secured at the least cost to consumers.

CRES providers are responsible for providing resources to meet the solar benchmark obligation for AEP Ohio customers that elect competitive retail service. If the Turning Point Project is included in the non-bypassable GRR, those customers will be paying twice for the solar resource, which, as I have stated before, will represent an anti-competitive subsidy from the competitive market to the regulated market.

Q. HAS AEP OHIO'S DIRECT OR SUPPLEMENTAL DIRECT TESTIMONY PROVIDED A DEMONSTRATION THAT GENERATION FACILITIES SUCH AS THE TURNING POINT PROJECT ARE NEEDED AS REQUIRED BY R.C. 4928.143 TO SATISFY A NEED FOR CAPACITY TO SATISFY RELIABILITY CRITERIA?

A. No. AEP Ohio has not provided any evidence or demonstration that the Turning Point Project is necessary to provide needed capacity to satisfy reliability criteria or any other operational criteria. AEP Ohio has indicated that it is long on capacity through the end of this decade[18], even in the face of plant retirements on the order of 5,000 to 6,000 MW. It is clear the Turning Point Project is not needed to provide capacity and energy to serve AEP Ohio's customers.

[18] AEP Ohio Filing, PUCO Case Nos. 11-2501-EL-FOR and 11-2502-EL-FOR, 4/15/2011 at pp. 140-141.

Q. IF THE TURNING POINT PROJECT IS NOT FILLING A CAPACITY AND ENERGY NEED, BUT INSTEAD IS BEING DEVELOPED TO SATISFY THE RPS SOLAR BENCHMARK IN SB 221, IS THE GRR THE APPROPRIATE MECHANISM FOR RECOVERING THE COSTS OF THIS PROJECT, ASSUMING THE COSTS COULD SOMEHOW BE JUSTIFIED?

A. No. The GRR is not the appropriate mechanism to recover the costs associated with a project like the Turning Point Project. The Turning Point Project, as AEP Ohio witnesses make perfectly clear may be able to satisfy an RPS benchmark, which is based on environmental public policy objectives, rather than obligatory requirements to serve customers reliably and at lowest possible cost. The Turning Point Project is certainly not the lowest cost alternative for serving customers at a levelized cost of $257 per MWh. Therefore, the GRR is the wrong mechanism for recovering the costs of the Turing Point Project in the first place.

The Turning Point Project is being developed to satisfy the RPS provisions and the solar resource benchmark within that standard as set by SB 221. AEP Ohio witness Roush states that satisfaction of RPS solar resource benchmarks is the objective of this project.[19] The Turing Point Project, if it were needed, which it is not, is developed to satisfy Ohio's RPS, set in place to achieve environmental public policy goals. It is clear from all the evidence presented by AEP Ohio that the Turning Point Project is not needed to satisfy some reliability requirement; AEP Ohio is long capacity until the end of the decade. If there is an appropriate mechanism for recovering the costs of the Turing Point Project, the GRR is not the appropriate mechanism to do that, nor is the non-bypassable provision proposed by AEP Ohio for the GRR an appropriate mechanism for recovering

[19] Supplemental Direct Testimony of David M. Roush on Behalf of Columbus Southern Power and Ohio Power Company, p. 2

costs of a project set to satisfy an environmental policy objective. The appropriate place to recover the costs of the Turning Point Project would be through the Alternate Energy Rider (AER).

Ohio R.C. 4928.64 lays out the requirements for electric distribution utilities for satisfying SB 221 with respect to providing electricity from alternative energy resources. The Turning Point Project is about providing electricity from an alternative energy resource. Further evidence that the Turning Point Project is a renewable energy asset is that the project intends to seek a Federal Investment Tax Credit (ITC) available only to renewable energy projects under § 48 of the Internal Revenue Code.[20] [21] AEP Ohio's Alternate Energy Rider is designed to recover the costs associated with the provision of energy from alternative energy resources. This is the appropriate mechanism through which to recover the costs of the Turning Point Project. In addition, as R.C. 4928.64 (E) states: "All costs incurred by an electric distribution utility in complying with the requirements of this section shall be bypassable by any consumer that has exercised choice of supplier under section 4928.03 of the Revised Code."

If the Commission were to find that the Turning Point Project satisfies R.C. 4928.64 and its costs recoverable in AEP Ohio's rates in some fashion, then it should move that recovery mechanism to the appropriate rider, which would be the AER.

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[20] AEP Ohio Witness Michael J. Kelley Direct Testimony, pp. 4-7.

[21] An irrevocable election to take an Investment Tax Credit (ITC) under § 48 of the Internal Revenue Code, in lieu of taking a Production Tax Credit that would be taken under § 45, was created by the American Recovery and Reinvestment Tax Act of 2009, Division B of Pub. L. 111-5, 123 Stat 115, which was enacted on February 17, 2009. This ITC applies to certain renewable projects, of which solar energy projects, such as the Turning Point Project, is one.

Q. HAS AEP OHIO DEMONSTRATED THAT GENERATION FACILITIES SUCH AS THE TURNING POINT PROJECT ARE CERTAIN?

A. No. The 2010 LTFR and AEP Ohio witnesses' direct and supplemental direct testimony raise questions about whether the Turning Point Project would even come about. For example, the 2010 LTFR characterizes the project as a "*potential* capital leasing arrangement…"[22] When asked whether AEP had "entered into a definitive agreement with Turning Point LLC," Mr. Godfrey initially answered "no."[23] In Mr. Godfrey's direct supplemental testimony he indicated that a Participation Agreement (Agreement) between AEP Ohio and Turning Point Solar LLC had been reached. However, Mr. Godfrey goes on to provide details of the Participation Agreement that define all of the terms and conditions that have yet to be fully worked out or satisfied by the parties to the Agreement in order to reach financial close and implementation of the Turning Point Project.

Mr. Godfrey's direct testimony and supplemental direct testimony should raise serious concerns at the Commission about the GRR. Given the Commission's previous decision in the Duke MRO Case, the Commission should deny the creation of the GRR.[24] The facts, or rather lack thereof, about the Turning Point Project highlight why the

[22] Columbus Southern Power Company and Ohio Power Company, *Supplement to the 2010 Long-Term Forecast Report to the Public Utilities Commission of Ohio*, April 2010, Ohio Power Case No. 10-501-EL-FOR and CSP Case No.10-502-EL-FOR, p. 5.

[23] Sierra/NRDC's Discovery Request, First Set, INT-1-019. Case Nos. 11-346-EL-SSO and 11-348-EL-SSO.

[24] In the case leading to the Duke MRO Order, Duke had requested the Commission approve the creation of an unavoidable reconciliation rider (Rider RECON) for over- or under-recovery of eliminated ESP-era riders. The Commission ruled that Rider RECON should be avoidable because "costs should not be borne by customers who do not take generation service from Duke." Duke MRO Order, p. 57.

Commission should reject the GRR. The project's uncertainty and, despite the supplemental testimony of AEP Ohio's witnesses that offer rough estimates of costs and rate impacts, the lack of cost information sufficient to quantify the Turning Point Project's and ultimately the GRR's full rate impacts illustrate the fundamental problems with the proposal to create a placeholder GRR. At the very least, the Commission should reject the proposal to make the GRR non-bypassable so that customers that choose a CRES provider can avoid the exposure to this yet undefined, anticompetitive cost. The Commission should not approve generation investment, even if it is renewable, that promotes inefficient use of resources and that could lead to unnecessary costs.

Q. HAS AEP OHIO'S SUPPLEMENTAL DIRECT TESTIMONY CLEARED UP QUESTIONS ABOUT THE CERTAINTY OF THE TURNING POINT PROJECT?

A. No. In his supplemental direct testimony, AEP Ohio witness Godfrey reviews the set of conditions set out in the Participation Agreement that must be satisfied for financial closure and implementation of the Turning Point project.[25] He lists nine conditions, none of which so far as I can determine have been satisfied. The supplemental information provided by Godfrey and the other AEP Ohio witnesses do nothing to resolve the significant uncertainty surrounding the Turning Point Project, and for that matter by implication, the ultimate cost of that project. Godfrey states: "A project of this magnitude involves a number of agreements that are negotiated over time. … These agreements are in an advanced form and anticipated to be further negotiated and refined as may be required by project leaders and additional equity investors."

[25] Supplemental Direct Testimony of Jay F. Godfrey on Behalf of Columbus Southern Power and Ohio Power Company, pp. 5-6.

AEP Ohio witness Godfrey's statements do not increase my confidence in the certainty of this project. The project requires "additional equity investors" which apparently have not been identified. The agreements have not been finalized, and cannot be if all the parties to the transaction have not been found. Godfrey's additional testimony just adds more information to support the argument that the project is highly uncertain. The Commission should not be making decisions about recovery of costs for a project that is as uncertain as this one appears to be.

Q. HAS AEP OHIO SHOWN THAT ANY OTHER POTENTIAL GENERATION INVESTMENTS ARE NEEDED OVER THE LIFE OF THE ESP?

A. No. Apart from the RPS benchmarks for solar power, the 2010 IRP states:

> the region's overall capacity need does not occur until the end of the Planning Period (2018-2019).[26]
>
> This going-in capacity profile also considered the potential retirement of close to 6,000 MW of primarily older, less-efficient coal-fired units over the Planning Period due largely to external factors including known or anticipated environmental initiatives from the U.S. Environmental Protection Agency (EPA), as well as the December 2007 stipulated New Source Review (NSR) Consent Decree. In spite of this potential, this AEP-East IRP requires no new <u>baseload</u> capacity resources in the forecast period. Rather, the proposed EPU initiative at the Cook Nuclear Station during the 2014-2018 time period and peaking resources required in 2017 and 2018, in addition to wind purchases and DSM are assumed to be added to maintain anticipated minimum PJM capacity reserve margin requirements (approximately 15.5% of peak demand) as well as system reliability/restoration needs. It is anticipated that additional natural gas-fired peaking and intermediate capacity would be added shortly after the 2020 Planning Period to meet future load obligations.[27]

Thus, as the 2010 IRP indicates, there is no need for any new capacity for the remainder of this decade, even if AEP retired up to 6,000 MW of its older coal-fired generation

[26] AEP, 2010 AEP-East Integrated Resource Plan, Issued 2010, p. i.

[27] *Id.*

units in the AEP East companies' territories. Clearly there is no anticipated need for generation investment during the three-year life of this proposed ESP.

This raises a more fundamental question about the need for a GRR, much less a non-bypassable GRR. With no immediate or even intermediate-term need for capacity additions to serve load or satisfy PJM reserve requirements, it is hard to understand how AEP Ohio can suggest that its investment profile is at risk for recovery over the life of this plan or at any time during the remainder of this decade.

Q. DOES AEP'S JUNE 9, 2011 ANNOUNCEMENT TO RETIRE GENERATION FACILITIES PROVIDE ANY NEW INFORMATION?

A. No, most of the plants named in the announcement were included in the 2007 Consent Decree that AEP signed with the U.S. Environmental Protection Agency (EPA) and other parties and those plants have been scheduled for retirement for a number of years. That retirement was shown in the 2010 LTFR.

Q. HAS AEP DISCUSSED THE RETIREMENT OF THE UNITS BEFORE JUNE 9, 2011 ANNOUNCEMENT?

A. Yes, on June 1, 2011, eight days before the AEP announcement, Michael Morris - American Electric Power Company, Inc.'s Chairman and Chief Executive Officer - stated at an investor conference hosted by Sanford Bernstein, in response to a question about the retirement of 5,500 MW of AEP generation: "Today -- in fact, throughout, I think, almost all of 2009, those plants probably didn't run 5% of the time, because gas prices were such -- natural gas prices were such that they just simply weren't dispatching. When we shut those down, there will be some cost savings as well. And on balance, we think that that is appropriate way to go, not only to treat our customers, but also to treat our shareholders, near and long term, with that small amount of the fleet going off-line."[28] This is the same amount of generation predicted to be retired in the 2010 LTFR.

Q. HAS AEP OHIO SHOWN THAT GENERATION FACILITIES FUNDED THROUGH THE GRR ARE DEDICATED TO SERVING ITS OHIO CONSUMERS AS CALLED FOR IN R.C. 4928.143?

A. No. With respect to the requirement that generation facilities whose costs are recovered through a GRR be dedicated to its Ohio consumers, there is no evidence in the ESP filing or in other AEP Ohio documents that would suggest that future planned generators' energy and capacity would be dedicated to AEP Ohio consumers.

AEP Ohio is a member of the AEP Power Pool governed by the AEP Interconnection Agreement (IA).[29] All AEP East Companies' generation is pooled and administered through the IA. AEP Ohio has more generation than customer load and therefore provides generation services to other AEP East Companies through the IA. If new generation is added and the costs are recovered through the GRR, or if environmental investments are made on AEP Ohio plants and costs recovered through the EICCR, AEP Ohio's membership in a multi-state IA that pools generation means that this generation will serve customers in multiple states; so AEP Ohio will be unable to satisfy the requirement to "dedicate that generation to Ohio consumers." This failure provides

[28] Comments by Michael Morris at Sanford C. Bernstein & Company LLC Strategic Decisions Conference, June 1, 2011, accessed at http://www.corporate-ir.net/ireye/confLobby.zhtml?ticker=AEP&item_id=3980201.

[29] Interconnection Agreement among APCo, KPCo, OPCo, CSPCo, I&M and with American Electric Power Service Corporation As Agent, July 6, 1951, as modified and supplemented by Modification No. 1, August 1, 1951, Modification No. 2, September 20, 1962, and Modification No. 3, April 1, 1975.

yet another reason to deny AEP Ohio's request for non-bypassable rider status for both the GRR and the EICCR.

Q. WOULD THE IA APPLY TO THE TURNING POINT PROJECT AS WELL?

A. Yes. Like all of AEP Ohio's existing generation units, the Turning Point Project would be made a part of the AEP Power Pool and used to serve AEP East Companies' loads.[30] The IA will govern the use of the Turning Point Project in terms of service to AEP East Companies' loads. Thus, no demonstration that the facility would be strictly dedicated to serving AEP Ohio consumers exclusively has been (nor can be) provided to satisfy the statute.

VIII. AEP Ohio Has Not Provided Cost Information Sufficient to Forecast the Rate Impacts of Its Proposal

Q. HAS AEP OHIO PROVIDED THE COMMISSION WITH AN ADEQUATE COST BASIS FOR THE TURNING POINT PROJECT THAT WOULD ENABLE THE COMMISSION TO JUDGE THE SHORT-TERM AND LONG-TERM IMPACTS OF CREATING THE GRR AND MAKING IT NON-BYPASSABLE?

A. No. In both the 2010 LTFR and in the direct and supplemental direct testimony accompanying the proposed ESP, AEP East Companies and AEP Ohio raise doubts and uncertainty about the economic and financial details of how the Turning Point Project would ultimately affect the rates to be set in the GRR for the "life of the facility." For example, the 2010 LTFR characterizes the project as a "*potential* capital leasing

[30] The AEP Power Pool is comprised of the AEP East Companies. The Pool shares the generation, cost of generation and resultant wholesale off–system sales of the member companies.

arrangement...,"[31] meaning that AEP at the time had not yet determined the financial arrangement. AEP Ohio witness Godfrey, in both his direct and supplemental direct testimony, elaborates on a host of conditions that must be met before the Turning Point Project can move ahead, including employment targets.[32] I do not find any cost figures presented in the proposed ESP in connection with the fulfillment of these conditions.

Furthermore, I cannot find within AEP Ohio's proposed ESP any complete cost basis for the Turning Point Project that would enable the Commission to determine the impact of the GRR within the context of this ESP's lifetime, should the Commission authorize the GRR and to allow the Turning Point Project costs to be recovered through that surcharge, non-bypassable or otherwise. AEP Ohio witness Godfrey indicated that "AEP Ohio would be making an initial equity investment in the Turning Point Solar Project in the amount of $20 million."[33] AEP Ohio witness Nelson indicates that the "Company will make a filing with this Commission proposing a rate upon completion of the definitive agreements."[34] But presumably all of this information would be provided to the Commission outside the context of this proceeding and subsequent to the time a decision is made in this proceeding about the GRR and its non-bypassable nature.

[31] Columbus Southern Power Company and Ohio Power Company, *Supplement to the 2010 Long-Term Forecast Report to the Public Utilities Commission of Ohio*, April 2010, Ohio Power Case No. 10-501-EL-FOR and CSP Case No. 10-502-EL-FOR, p. 5.

[32] Direct Testimony of Jay F. Godfrey On Behalf of Columbus Southern Power Company and Ohio Power Company, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO, p. 26 ff.

[33] *Id.*, p. 25.

[34] Direct Testimony of Philip J. Nelson On Behalf of Columbus Southern Power Company and Ohio Power Company, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO, p. 23.

The supplemental direct testimony of AEP Ohio witnesses does not reduce the uncertainty about the ultimate costs of the Turning Point Project. AEP witness Godfrey states that there is a cap on AEP Ohio's exposure to the Turning Point Project costs, and that should project costs exceed those allowed by the Commission, AEP does not have to proceed with the project.[35] This statement does not increase my confidence in the certainty of the Turning Point Project. Statements such as this one from AEP Ohio representatives would not be taken as encouraging words to alternative equity investors who may not be solidly behind this project.

The cost exposure cap "out clause" for AEP Ohio increases the uncertainty regarding the financial closure of this project. It suggests that the risks for alternative equity investors would be greater, which in turn, would mean greater compensation for that risk. If AEP Ohio is in a position to place such an out clause in the conditions for its participation of the Turning Point Project, then AEP Ohio must not view the project as necessary to satisfy the immediate solar benchmark, underscoring the fact that the Turning Point Project is really not needed. The Commission should not be moved to authorize recovery through the GRR and by no means make recovery non-bypassable.

[35] Supplemental Direct Testimony of Jay F. Godfrey on Behalf of Columbus Southern Power and Ohio Power Company, p. 9.

Q. HAS AEP OHIO PROVIDED WITHIN THE PROPOSED ESP ANY ESTIMATES OF FUTURE COSTS FOR ANY OTHER CONVENTIONAL GENERATION INVESTMENTS THAT WOULD BE COLLECTED UNDER THE GRR TO ENABLE THE COMMISSION TO ASSESS THE ECONOMIC IMPACTS OF THAT RIDER IF IT WERE MADE NON-BYPASSABLE?

A. No. I cannot find within the proposed ESP where AEP Ohio has provided a forecast of costs that would be incurred so that a person could form an opinion as to the future rate that would be set for the GRR, regardless of whether it was made non-bypassable.

AEP Ohio witness Nelson, in response to Exelon INT-1-005, stated: "Aside from the Turning Point project reference in the Company's application and testimony, AEP Ohio is not currently planning to propose construction of new generation plant(s) through May 31, 2014."[36]

The lack of cost specificity is seriously alarming in this case as we are not considering a rider for over- or under-recovery of specific costs (a kind of true-up mechanism), but are instead debating riders that could ultimately seek recovery in the billions of dollars from AEP Ohio customers. The nebulousness of this proposal and lack of any concrete cost information should make the Commission wary of approving the GRR for this proposed ESP, much less making it non-bypassable.

AEP Ohio has indicated that it has no generation investment planned for the life of the ESP except for the Turning Point Project. The costs for this project will not be filed with the Commission until 2012, ostensibly after AEP Ohio is asking the Commission to have pre-approved its request for a non-bypassable GRR.

[36] Columbus Southern Power Company's and Ohio Power Company's Responses to Exelon Generation Company LLC's Discovery Request, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO, First Set, INT-1-005.

Q. HAS AEP OHIO PROVIDED ESTIMATES OF ENVIRONMENTAL INVESTMENT COSTS THAT WOULD ENABLE THE COMMISSION TO ASSESS THE ECONOMIC IMPACTS OF THE EICCR RIDER IF IT WERE MADE NON-BYPASSABLE?

A. No. With respect to the total dollar amount of environmental compliance costs for which AEP Ohio would seek recovery during the life of this ESP, AEP Ohio witness Nelson, in response to a discovery request from the Industrial Energy Users-Ohio stated: "The Company has not calculated the total dollar amount of such environmental compliance costs for the 29 month ESP period."[37] According to AEP Ohio witness Moore, "The Company is requesting that beginning with the 2012 filing, a forecast of spending be incorporated into the rider to eliminate the lag between expenditures and recovery. The filing will be trued up annually which will allow the compounding carrying costs currently implemented to be excluded with this new mechanism to reflect current recovery."[38] Thus, the Commission would only begin to see the potential dollar impacts of a non-bypassable EICCR after they have approved it as part of the proposed ESP.

[37] Columbus Southern Power Company's and Ohio Power Company's Responses to Industrial Energy Users-Ohio Discovery Request, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO, Second Set, INT-073.

[38] Direct Testimony of Andrea Moore On Behalf of Columbus Southern Power Company and Ohio Power Company, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO, pp. 6-7.

IX. AEP Ohio Provides No Evidence To Support Its Assertion That Generation Investment Faces Risks That Necessitate a Non-Bypassable GRR or EICCR

Q. HAS AEP OHIO DEMONSTRATED THAT RISKS FACED BY ITS PLANNED GENERATION OVER THE LIFE OF THIS ESP NECESSITATE THE IMPOSITION OF NON-BYPASSABLE RIDERS?

A. No. Despite Mr. Hamrock's elaboration of the unique risks that he feels the current economic, electric market, and regulatory environment ostensibly create for the recovery of AEP Ohio's generation and environmental compliance investments and related costs, AEP Ohio's application is devoid of evidence to support his claims. AEP Ohio has been operating for approximately a decade in a competitive retail market environment. The risk of customer migration, such as it is, has been present since 2001, or at the very least, since 2008 when the last of the non-bypassable stranded cost wires surcharges were discontinued. The evidence of migration presented by AEP Ohio witness Thomas indicates that, after a decade of competition, only about 4% of AEP's Ohio load (MWh) is served by competitive suppliers, in sharp contrast to the significant percentages of other Ohio EDU's load (MWh) served by CRES providers.

Imposition of non-bypassable riders for generation investments and environmental compliance costs will erect an economic barrier to customers who would seek to benefit from switching to a lower-cost CRES provider. Fundamentally, AEP Ohio is proposing that its future generation be treated as a new round of stranded costs for which it expects to be fully compensated.

Q. HAS AEP OHIO DEMONSTRATED THAT BOND MARKETS PERCEIVE GENERATION TO BE AT GREATER RISK THAT REQUIRES MITIGATION BY WAY OF A NON-BYPASSABLE GRR?

A. No. Mr. Hamrock suggests that AEP Ohio's operations in Ohio are perceived by the bond markets as exhibiting greater risk because of regulatory uncertainty tied to the approval of this ESP and because of other risks such as migration and environmental compliance.[39] He attributes recent rating downgrades to that uncertainty, which he says the Commission can ameliorate by approving the ESP as proposed. This is inconsistent with public statements by the President and COO of APCo who stated, "At least one AEP subsidiary in Ohio is receiving a 16 to 17 percent return...[40]"

I do not find that the rating agencies perceive the approval of the proposed ESP as a major risk factor in reaching their conclusions about bond ratings. In fact, not all rating agencies have downgraded AEP Ohio. For example, Fitch, in December 2010, stated in a news release: "Fitch has revised the Rating Outlook for [Ohio Power Company] OPC to **Positive from Stable**; the Rating Outlook for CSP [Columbus Southern Power] **remains Stable"**.[41] Fitch goes on to say: "... parent company American Electric Power Co. (AEP, IDR 'BBB', Outlook Stable) is reliant on the financial strength of CSP [Columbus Southern Power], as well as OPC [Ohio Power Company], to support the smaller, less

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[39] Direct Testimony of Joseph Hamrock On Behalf of Columbus Southern Power Company and Ohio Power Company, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO, p. 5 ff.

[40] Quote from Charles Patton, President and COO of AEP's Appalachian Power, Charleston Daily Mail (WV), "Appalachian Power chief has blunt message on energy," May 19, 2011.

[41] Business Wire, *Fitch Revises Ohio Power's Outlook to Positive; Affirms Ohio Power & Columbus Southern Power's Rtgs*, http://www.businesswire.com/news/home/20101221006418/en/Fitch-Revises-Ohio-Powers-Outlook-Positive-Affirms. [emphasis added]

robust utility subsidiaries through the shared money pool and power pool." For example, on the basis of FERC Form 1 data for the period 2005 to 2009, returns on average common equity were 19.3% for Columbus Southern Power and 12.1% for Ohio Power.[42]

AEP Ohio seeks protection from a competitive market erosion of its financial core Ohio operating companies by way of non-bypassable surcharges for generation and environmental compliance investments and related costs.

A MorningStar report about a Moody's rating assessment of AEP's Ohio operating companies' quotes a Moody's representative as stating:

> The negative rating outlook for CSP [Columbus Southern Power] reflects the proposed merger combination with affiliate Ohio Power. On a pro-forma combined basis, we see the credit characteristics as more appropriate for the Baa1 ratings category, albeit a strong Baa1.[43]

The Moody's representative is further quoted as saying:

> Previously, we viewed Ohio Power to be reasonably positioned within the Baa1 ratings category and CSP to be somewhat weakly positioned within the A3 ratings category. AEP's Ohio utility businesses remain exposed to lingering uncertainty associated with potential legislative restructuring intervention, request for non-bypassable generation charges, other rate-making transition structures to market-based rates as compared to fully regulated rates and potential customer switching issues. Nevertheless, we continue to view the Ohio regulatory and political framework as a net credit positive for all of the utilities in Ohio.

In other words, despite the "lingering uncertainty," Moody's view is that the utilities in Ohio, including AEP Ohio, continue to be in a net credit positive position.

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[42] These data are from FERC Form 1 filings by Columbus Southern Power Company and Ohio Power Company for the years 2005 through 2009.

[43] MorningStar, *DJ Moody's Changes Columbus Southern Power Rating Outlook To Negative; Affirms AEP's Baa2*, march 29, 2011, http://www.morningstar.co.uk/uk/markets/newsfeeditem.aspx?id=134292890316246.

Even AEP's Chairman and Chief Executive Officer, Michael Morris, indicates that the economic recovery is underway in the AEP East companies' territory when he states: "We are seeing growth in industrial demand, and based on the most recent national data, the economic indicators for our eastern states should continue to improve."[44]

Q. HOW DOES MOODY'S Baa1 RATING OF THE MERGED COMPANIES COMPARE TO AEP'S INDUSTRY PEERS?

A. Moody's rating of Baa1 for the merged companies still places them above the industry peer average according to the Edison Electric Institute (EEI). According to EEI, the industry's average credit rating in 2010 remained BBB for the seventh consecutive year.[45]

Q. HAVE ANY FINANCIAL ANALYSTS COMMENTED ON AEP'S JUNE 9, 2011 ANNOUNCEMENT ABOUT POWER PLANT RETIREMENTS?

A. Yes. Steve Fleishman, a research analyst with Bank of America-Merrill Lynch stated in a June 16, 2011 report, entitled, "American Electric Power, EPA concerns overstated; reiterate Buy" that "We see at worst a neutral impact to the rules. We understand there have been several concerns raised recently over negative earnings potential stemming from the announcement. We believe that the concerns are either misplaced or overstated,

[44] AEP Company News, AEP Continues to Enhance Shareholder Value and Seeing Signs of Economic Recovery, Shareholders Learn at Company's Annual Meeting, April 26, 2011, http://www.aep.com/newsroom/newsreleases/?id=1686.

[45] Edison Electric Institute, Credit Ratings, Q4 2010 Financial Update Quarterly Report of the U.S. Shareholder-Owned Electric Utility Industry, undated, p. 1.

and do not take into account the potential earnings upside as the investments are added to rate base."[46]

Q. HAS AEP INFORMED IT'S INVESTORS ABOUT THE LIKELIHOOD OF RECOVERING EXPENDITURES FOR AIR QUALITY AND ENVIRONMENTAL INVESTMENTS THAT SUGGESTS THEY ARE NOT AT RISK?

A. Yes. In the December 31, 2010 OPCo and CSPCo's 10-K report AEP stated, "We should be able to recover these expenditures through market prices in deregulated jurisdictions."[47]

X. The Commission Has Established a Policy Position That Rejects Non-Bypassable Provisions for Generation Investment, and It Should Be Continued In This Case

Q. HAS THE COMMISSION, THROUGH PREVIOUS ORDERS ON ESPs or MROs, ESTABLISHED A POLICY REGARDING NON-BYPASSABLE PROVISIONS IN RIDERS INSOFAR AS THOSE PROVISIONS RECOVER COSTS FROM SHOPPING CUSTOMERS WHO DO NOT TAKE GENERATION SERVICE FROM AN EDU?

A. Yes. In the Commission's order on the Duke MRO it stated:

> In considering Rider RECON, the Commission is mindful that Rider RECON is <u>being proposed as a vehicle to true-up generation-related costs.</u> Accordingly, the Commission agrees with the recommendation of Staff and other intervenors that such costs <u>should not be borne by customers who do not take generation service from Duke.</u>[48]

[46] Bank of America – Merrill Lynch, *Company Update*, "American Electric Power: EPA concerns overstated: reiterate buy," June 16, 2011.

[47] Columbus Southern Power Company & Ohio Power Company, 10-K for filed period 12/31/2010, filed on 2/25/2011, p 124 of 566.

[48] Duke MRO Order, p. 57.

In that same order, the Commission denied Duke's request to make the Supplier Cost Reconciliation Rider (Rider SCR) non-bypassable as well. The Commission stated:

> In considering Duke's request to include a 'circuit breaker' provision in Rider SCR, the Commission does not believe that such a provision would advance the policy of the state as articulated in Section 4928.02, Revised Code. Specifically, Section 4928.02(H), Revised Code, provides that it is the policy of the state to avoid anticompetitive subsidies flowing from a noncompetitive retail electric service to a competitive retail electric service and vice versa. If Duke were permitted to recover the costs included in Rider SCR from shopping customers, under any circumstances, we believe that it would create an anticompetitive subsidy.[49]

Q. WHAT DO YOU CONCLUDE BASED ON THE COMMISSION'S STATEMENTS IN THE DUKE MRO ORDER?

A. The Commission found that placeholder riders without specifics on costs do not qualify to be non-bypassable. In addition, the Commission considers all requested riders against the test that they advance the policy of the state to avoid anticompetitive subsidies. When these findings are applied to AEP Ohio's proposed GRR and EICCR, both should be found to be bypassable.

XI. Non-Bypass Provisions for Generation Investment Are Not Supported In Ohio or Other States

Q. DO OTHER OHIO UTILITIES HAVE NON-BYPASSABLE PROVISIONS TO RECOVER THE COSTS OF FUTURE GENERATION INVESTMENT AND ENVIRONMENTAL COMPLIANCE COSTS AS PART OF THEIR ESPs OR MROs?

A. No. For example, FirstEnergy's ESP does not contain non-bypassable riders for recovery of generation investment or environmental investment costs. As I mentioned earlier, the

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[49] *Id*, pp. 63-64 emphasis in the original.

Commission's order in the Duke MRO case rejected a proposal for a non-bypassable rider for generation investment costs. And the Commission's order in the OPCo Sporn retirement case also rejected the recovery of those costs through a non-bypassable rider.

Q. DO OTHER STATES THAT HAVE MOVED TO A COMPETITIVE RETAIL MARKET MODEL RELY ON NON-BYPASSABLE PROVISIONS TO RECOVER THE COSTS OF FORWARD-LOOKING GENERATION INVESTMENTS AND ENVIRONMENTAL COMPLIANCE COSTS?

A. No. AEP Ohio witness Thomas, in response to a question about other information that was reviewed to determine the components of the competitive benchmark price, refers to several other states with "deregulated [retail] electricity markets."[50] The states she mentions are Delaware, Maryland, New Jersey, Pennsylvania, and Illinois. According to Thomas "these states fall within the PJM footprint and therefore would have comparable RTO requirements for serving load as in Ohio. These states also utilize a competitive bidding or auction process for full requirements service to retail customers and have specified elements to be included in the competitive bid generation prices."[51]

The states that Thomas lists have competitive retail markets within the PJM footprint, but they do not have non-bypassable provisions designed to fully recover all costs associated with conventional generation-related investment as proposed by AEP Ohio.

[50] Direct Testimony of Laura J. Thomas On Behalf of Columbus Southern Power Company and Ohio Power Company, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO, p. 5.

[51] *Id.*, p. 5.

XII. Non-Bypassable GRR and EICCR Set a Bad Public Policy Precedent

Q. WOULD ADOPTION OF A NON-BYPASSABLE RIDER FOR GRR OR EICCR CREATE A BAD PUBLIC POLICY PRECEDENT?

A. Yes. About 1999, on the eve of restructuring in Ohio, the state government and the state's electricity industry entered into a "grand bargain." The state agreed to arrange to have utilities' sunk costs retired in exchange for caps on electricity prices (and some initial price reductions).[52] Thus, Ohio utilities, which signed this bargain, AEP Ohio among them, took the chance that they would be able to make profits given uncertain future power prices. Apparently AEP Ohio finds it does not like that bargain, and wants to change it. The Commission should not allow it, as it will set bad public policy precedent against competition, not only for Ohio, but for other states as well.

AEP Ohio essentially threatens the Commission with the "sky is falling" argument that, if non-bypassable provisions for GRR and EICCR are not approved, generation investment in Ohio will not happen, and Ohio will be at risk of becoming a net importer of energy. The Commission need not view this as a threat. If the energy produced outside of the state can be had more cheaply (including transmission costs) than energy produced in Ohio, then Ohio electricity consumers are better off with less expensive imported energy. This is an illustration of the fundamental concept behind all

[52] Senate Bill 3 was signed into law by the Governor on July 6, 1999. The legislation allowed retail customers to choose their energy suppliers beginning January 1, 2001. The new law required 5% residential rate reductions and a rate freeze for five years, and empowered the Commission to determine the amount and recovery period for stranded costs. In January 2000, Ohio Power Company and Columbus Southern Power Company filed with the Commission a transition plan that included a requested recovery of $974 million in regulatory assets.

forms of trading, from interstate commerce to international trade: trade occurs when one of the trading partners has a comparative economic advantage in the production of a good or service. In this instance, if generators outside of Ohio can provide electricity to Ohio at lower cost than AEP Ohio can, it harms Ohio consumers to protect AEP Ohio from the outside competition.

Considering the economics of trade leads automatically to a related argument against the notion of non-bypassable surcharges for future generation-related investment. Such surcharges establish protection for domestic (i.e., in-state) generation investment and, worse yet, for a particular in-state generation company (AEP Ohio). Protectionist policies, restrain trade under the guise of promoting the domestic economy. However, if Ohio adopts such a protectionist policy on behalf of AEP Ohio, other states may well be induced to follow its example, and taken to the extreme, the policy would result in higher electricity prices region wide, which utterly defeats the purpose of the movement to competitive retail and wholesale markets, which is to lower costs through efficient trade.

XIII. Non-Bypassable GRR and EICCR Riders Are a Tax.

Q. WHY DO THE NON-BYPASSABLE GRR AND EICCR OPERATE LIKE A TAX?

A. A "tax" may be defined as a compulsory fee levied on the basis of predetermined criteria that may be unrelated to any specific benefit received by the payer. Thus, the imposition of a non-bypassable rider on all customers of the wires company (i.e., EDU) to recover generation investments and related costs, including environmental compliance costs, is a tax in the sense that it would be paid for by all electricity consumers, even those (shopping customers) who derive no benefit from those investments.

A charge on all customers for transmission and distribution services is a usage fee in the sense that all customers—regardless of their generation supplier—do use and do benefit from the transmission and distribution systems. A charge on all customers for the costs of a particular generation supplier, by contrast, is an anticompetitive tax in the sense that only the customers of that supplier use and benefit from that supplier's services; the customers of other suppliers do not. Like a tax, the purpose of the latter type of charge is to recover costs regardless of whether the payers of the tax receive a benefit.

Q. DO AEP OHIO'S INVESTMENTS IN GENERATION AND ENVIRONMENTAL COMPLIANCE HAVE THE CHARACTERISTICS OF A PUBLIC GOOD OR SERVICE THAT WOULD REQUIRE RECOVERY OF COSTS THROUGH A TAX-LIKE MECHANISM SUCH AS A NON-BYPASSABLE RIDER?

A. No. The generation and environmental compliance investment costs for existing generation that services AEP Ohio's SSO load does not exhibit non-rival and non-excludable properties, which are two leading properties of a public good. Customers who are not taking energy and capacity services from AEP Ohio are automatically excluded from receiving benefits of services provided by those investments; that is what accounting, billing and settlement processes are all about—segregating SSO customers and shopping customers served by the EDU's wires. These investments do not exhibit other characteristics of public goods either. For example, the marginal cost of one more individual enjoying the benefits of those investments is not zero. For a shopping customer to enjoy the benefits of those investments, the customer must be receiving energy and capacity service from those facilities, which if they are a CRES customer, they are certainly not; and if they were, the marginal cost of providing an additional kWh to the customer is not zero, which it would be if the service were a public good.

The move to a competitive retail market in Ohio (and in 16 other jurisdictions)[53] and competitive regional wholesale markets nationwide over the past ten years was premised on the assumption that competitive markets could provide generation and generation related services more efficiently than through governmental regulation. The "economies of scale" argument justifying regulation of generation cost recovery was rebutted many years ago. There has been no market failure with respect to the provision of these services of the sort that calls into play the role of government to provide them efficiently as in the case of a true public good by instituting a non-bypassable surcharge (a tax) on all load in AEP Ohio's service territory.

XIV. Conclusions and Recommendations

Q. WHAT CONCLUSIONS HAVE YOU REACHED REGARDING AEP OHIO'S REQUEST TO CREATE THE GRR AND TO MAKE IT AND THE EICCR NON-BYPASSABLE?

A. The Commission should reject AEP Ohio's request for approval of the GRR and for making the GRR and the EICCR non-bypassable. These requests are not supported by the record established in AEP Ohio's ESP filling. AEP Ohio's proposed GRR and EICCR surcharges are unfair to electricity consumers, unfair to competing generation investors and CRES providers, and inefficient in the sense of discouraging least-cost supply of generation services.

AEP Ohio has failed to make a case for non-bypassable provisions for GRR and EICRR because: (i) AEP Ohio's generation and environmental investments will not

[53] See Philip R. O'Connor, *Customer Choice in Electricity Markets: From Novel to Normal*, November 15, 2010, for details on the progress of customer choice in all these jurisdictions.

satisfy the three requirements of R.C. 4928.143; (ii) AEP Ohio's generation and environmental investments are not subject to extraordinary risks, even if there was statutorily a way that such a showing could justify approving such a request, which there is not; (iii) cost information sufficient for the Commission to determine the short-term and long-term rate impacts of a non-bypassable GRR Rider has not been provided by AEP Ohio for any investments that would be recovered through such riders other than the Turning Point Project, whose costs and subsequent rate impacts remain unclear; and (iv) no quantification has been provided by AEP Ohio of the economic impacts of the imposition of such riders on AEP Ohio's customers and the Ohio economy that would enable the Commission to properly assess the riders.

In addition, the Commission has already established a policy position in a previous SSO case that opposes the imposition of non-bypassable generation-related investment riders for a variety of reasons that I have discussed above.

Q. WHAT RECOMMENDATIONS DO YOU MAKE TO THE COMMISSION REGARDING AEP OHIO'S REQUEST TO ESTABLISH THE GRR AND TO MAKE IT AND THE EICCR NON-BYPASSABLE?

A. I make the following recommendations to the Commission:

- The Commission should reject AEP Ohio's request to establish the GRR because it will unnecessarily raise rates, become a barrier to customers' ability to switch to CRES providers, and discourage least-cost procurement of generation services in Ohio.
- Should the Commission find the GRR to be justified on the basis of the record, it should deny granting non-bypassable status to the GRR and make it bypassable for customers that switch to CRES providers.

- The Commission should reject AEP Ohio's request to make the EICCR non-bypassable -- keeping it bypassable for customers that switch to CRES providers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

MATHEW J. MOREY

RESUME

March 2011

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Academic Background:

Ph.D., University of Illinois-Urbana/Champaign, 1977, Economics.
M.S., University of Illinois-Urbana/Champaign, 1975, Economics.
B.S., University of Illinois-Urbana/Champaign, 1973, Economics.

Positions Held:

Senior Consultant, Christensen Associates Energy Consulting, July 2003 – Date
Principal, Envision Consulting, October 2000 – June 2003
Director, Economics, Edison Electric Institute, February 1996 – October 2000
President, Center for Regulatory Studies, Illinois State University, 1991 – 1996
Vice President, Center for Regulatory Studies, 1985 – 1991
Director of Energy Forecasting, Central Illinois Light Company, 1991 – 1992
Special Term Appointment, Argonne National Laboratory, 1987 – 1992
Associate Professor of Economics, Illinois State University, 1983 – 1996
Assistant Professor of Economics, Indiana University, 1978 – 1983
Assistant Professor of Economics, Arizona State University, 1977 – 1978

Selected Professional Activities:

Research Advisory Committee, National Regulatory Research Institute, 1995-1996

Professional Experience:

I am a Senior Consultant at Christensen Associates. I have broad experience in the electric industry working on issues connected to all aspects of industry restructuring, wholesale and retail market design, system operations, and retail and wholesale rates and tariffs. I have worked on projects involving transmission congestion management and pricing systems, market power and market monitoring, market design and incentive regulation, among others. Prior to joining Christensen Associates, I was Principal of Envision Consulting, which I founded in 2000. I served as Chief Economist with the Edison Electric Institute from 1996 to 2000. I guided the development of EEI's positions on economic and regulatory policy pertaining to the restructuring of the industry's wholesale and retail markets. I shaped EEI's economic framework for efficient pricing and practices within competitive and regulated markets, transmission and distribution pricing and rate design, including congestion pricing practices, merger and market power policies at the federal and state level, and energy business development. I have testified before state and federal regulatory agencies and state legislative bodies on a wide range of industry issues including impacts of utility mergers, stranded costs, market power measurement and mitigation, affiliate codes of conduct, modeling fuel costs in fuel adjustment cases, costs and benefits of Regional Transmission Organizations, utility-affiliate transfer pricing rules, cost of service studies in retail rate cases and regulatory policy regarding the design of distribution and transmission rates.

Major Projects:

Assisted a national trade group with understanding the costs and benefits associated with nationwide expansion of the extra high-voltage transmission system.

Assisted the Commonwealth of Puerto Rico with the development of an open access transmission system, including development of an open access transmission tariff, operating agreements, generator interconnection procedures and agreements, setting transmission access charges and rates for the full set of ancillary services.

Assisted industrial customers with assessment of utility requests to increase base rates and assessments of requests to adjust fuel cost recovery tariffs.

Assisted a national trade association with the analysis of RTO and regional LMP-based market performance.

Assisted a coalition of market participants in the PJM RTO markets about the implications of the implementation of the PJM Reliability Pricing Model, intended to ensure resource adequacy.

Assisted an investor-owned electric utility with evaluation of feasible options to membership in a Regional Transmission Organization.

Assisted an independent transmission company with the evaluation of the costs and benefits of transmission expansion options.

Conducted a review of federal and state experience with utility codes of conduct and affiliate transaction pricing rules in the U.S. for a Canadian utility.

Conducted a review of how stranded cost issues were addressed in the U.S. at the State and Federal levels for a Canadian utility.

At the request of a state regulatory agency, performed a critique of a cost-benefit study of a utility's membership in the PJM RTO and prepared direct testimony about the critique.

Assisted the National Rural Electric Cooperative Association with comments to the Federal Energy Regulatory Commission on the analysis of market power as it relates to the granting of market-based rate authority.

Performed critiques for the National Rural Electric Cooperative Association of various studies of the costs and benefits of restructuring of the wholesale and retail power markets.

Performed analysis for LGE Energy Corporation of the costs and benefits of alternative regional transmission organizational arrangements and assisted the company in its process of exiting from the Midwest Independent Transmission System Operator.

Assisted Detroit Edison Company and DTE Energy Trading, Inc. with issues related to transmission pricing that arise from the elimination of through and out rates and the application of the Seams Elimination Cost Adjustment (SECA) charges.

Conducted a review for a large Canadian energy firm of the proposed congestion management principles for operation of the Alberta transmission system and improvements in the design of the Alberta wholesale energy market, and prepared testimony on the basis of that analysis.

Assisted an independent transmission company with development of comments on the FERC Standard Market Design Notice of Proposed Rulemaking and advised on transmission pricing and performance-based regulation for transmission companies.

Performed a study for the Independent System Operator of New England on transmission congestion management and market power issues as they pertain to implementation of a Standard Market Design.

Consultant to a national trade association on electric industry restructuring issues including market design and market power, transmission congestion management, transmission regulation, RTO design and impacts of federal energy legislation.

Assisted a utility with assessing options for satisfying FERC Order Nos. 888 and 2000 while continuing to provide reliable service to its native load customers at a reasonable cost.

Assisted a New York investment firm in assessing risks associated with power supply contracts.

Publications:

"Managing Transmission Risk in Wholesale Power Markets," with Laurence D. Kirsch, *The Electricity Journal*, Volume 22, Issue 9, October 2009, pp. 26-37.

"Electricity Price Impacts of Alternative Greenhouse Gas Emission Cap-and-Trade Programs," with Bruce Edelston, Dave Armstrong, and Laurence Kirsch, *The Electricity Journal*, Volume 22, Issue 6, July 2009, pp. 37-46.

"Efficient Allocation of Reserve Costs in RTO Markets," with Laurence D. Kirsch, *The Electricity Journal*, Volume 19, Issue 8, October 2006, pp. 43-51.

"RTOs and Electricity Restructuring: the Chasm Between Promise and Practice," with B. Kelly Eakin and Laurence D. Kirsch, *The Electricity Journal*, Volume 18, Number 1, January/February 2005, pp. 1-21.

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"ITP Building Blocks: Functions and Institutions," with Eric Hirst, *The Electricity Journal*, Volume 16, Number 3, April 2003, pp. 29-41.

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"Sudden Oil Price Changes: The Effect on U.S. Gasoline Demand," with R.K. Goel, *Opec Review*, Autumn 1995, pp. 203-218.

"The Interdependence of Cigarettes and Liquor Demand," with R.K. Goel, *Southern Economic Journal*, September 1995, pp. 451-459.

"Trans-Atlantic Lessons in Electric Energy Market Development: Impressions from the U.S. and U.K.," *TB&A inforum,* Volume 1, Issue 4, May-June 1994 and Volume 2, Issue 2, September-October 1994.

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"MicroTSP: A Review," *The American Statistician*, Vol. 41, No. 2, May 1987, pp. 143-145.

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"Small Sample Behavior of Bootstrapped and Jackknifed Regression Estimates," with Leslie M. Schenk, in the *Proceedings of the American Statistical Association, Business Statistics Section*, Fall 1984.

"The Statistical Implications of Preliminary Specification Error Testing," *Journal of Econometrics*, 25, 1984.

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"Pooled Cross-Section Time Series Education Evaluation: Source, Result and Correction of Serially Correlated Errors," with William Becker, *American Economic Review*, May 1980.

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Professional Papers:

"Analysis of Benefits and Costs of RTO Membership Options," prepared for a utility in the Midwest, March 2011.

"Fundamentals of Power System Reliability," with Robert Camfield and Laurence Kirsch, prepared for American Coalition for Clean Coal Electricity, December 2010.

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"Transmission Price Risk Management," with L.D. Kirsch, Electric Power Research Institute, Product ID# 1012475, October, 2005.

"Global Energy Decision's 'Putting Competitive Power Markets to the Test': An Alternative View of the Evidence," with Laurence D. Kirsch, prepared for the National Rural Electric Cooperative Association, August 2005.

"Critique of the Charles River Associates Study 'The Benefits And Costs In North Carolina Of Dominion North Carolina Power Joining PJM'," with Laurence D. Kirsch, prepared for the Public Staff of the North Carolina Utilities Commission, September 30, 2004.

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"Preliminary Blueprint for Addressing Generation Market Power Issues," with B. Kelly Eakin, prepared for the National Rural Electric Cooperative Association, February 1, 2004.

"Erecting Sandcastles from Numbers: The CAEM Study of Restructuring Electricity Markets," with Laurence D. Kirsch, Steven Brathwait, and Kelly Eakin, December 3, 2003, prepared for National Rural Electric Cooperative Association.

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"Wholesale Electricity Costing and Pricing," Camp NARUC, Institute of Public Utilities, Michigan State University, August 9, 2007.

"Managing Transmission Risk in Illiquid Markets," with L. D. Kirsch, Electric Power Research Institute, Advisory Group Meeting, Charlotte, North Carolina, August 24, 2006.

"Wholesale Electricity Costing and Pricing," Camp NARUC, Institute of Public Utilities, Michigan State University, August 10, 2006.

"Managing Transmission Price Risk," with Laurence Kirsch, Electric Power Research Institute, Interest Group Meeting, Washington, D.C., July 27, 2006.

"Installed Capacity Market Reforms: Assessing Risk for Generation," Electric Power Research Institute, Advisory Meetings, San Diego, California, February 6, 2006.

"The Costs and Benefits of Regional Transmission Organizations," Large Public Power Council Rates Committee Seminar, San Antonio, Texas, October 2, 2005.

"The Trials and Tribulations of a Fuel Cost Adjustment Mechanism," Large Public Power Council Rates Committee Seminar, San Antonio, Texas, October 2, 2005.

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"Developing Transmission Through Performance-based Regulation," presented to the Center for Business Intelligence, Transmission Expansion: Investment, Incentives and Regional Approaches to Transmission Opportunities, Alexandria, VA, October 8, 2003.

"Incentive Regulation for Transmission," presented to the EEI Market Design Workshop, Madison, WI, July 29, 2003.

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"Congestion Management," presented to the EEI Transmission Business School, Philadelphia, PA, March 19, 2002.

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"Are Utilities Gaming the System," presentation to the EEI Strategic Issues Conference, Washington, D.C., October 1, 2000.

"Affiliate Transaction Pricing Rules or How To Swim Upstream With One Arm Tied Behind Your Back," presented to the EEI Property Accounting Committee Spring meeting, Dallas, TX, June 8, 2000.

"Distributed Generation: Is It the Wave of the Future?" presentation to the Spring Meeting of the National Association of State Utility Consumer Advocates, Portland, ME, June 5, 2000.

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"Codes of Conduct: Impacts on Utility Profitability," presented to the Chief Accounting Officers annual meeting, New Orleans, LA, September, 1999.

"A Market Economist's Perspective on Market Power in the Electric Industry," presented at the Electric Utility Business Environment Conference, Denver, CO, May 17, 1999.

"Transmission Market Design Principles," presented to the NARUC Subcommittee on Accounts, Winter Meeting, New Orleans, LA, March 22, 1999.

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- Before the Federal Energy Regulatory Commission, on behalf of the National Rural Electric Cooperative Association, "Remarks of Mathew J. Morey On Behalf of the National Rural Electric Cooperative Association," Technical Conference on Generation Market Power and Affiliate Abuse, Docket No. RM04-7-000, January 27, 2005.
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- Before the Michigan Public Service Commission on behalf of Michigan Gas Utilities, Case No. U-11648, in the matter of the application of Michigan Gas Utilities for approval of transportation standards of conduct and complaint procedures, 1998.
- Before the Massachusetts Department of Telecommunications and Energy on behalf of Edison Electric Institute concerning whether to extend the affiliate transactions rules to utility affiliates participating in non-energy services or energy-related services markets, 1998.
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- Before the Maine Public Utilities Commission on behalf of Edison Electric Institute, Docket No. 97-877 on the Maine Attorney General's report on market power in Maine, 1997.
- Before the Massachusetts Department of Telephone and Energy Supplied on behalf of Edison Electric Institute concerning affiliate codes of conduct and transaction rules, 1997.
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- Before the Mississippi Public Service Commission on behalf of Edison Electric Institute concerning industry restructuring issues, 1997.
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- Before the Kansas Legislature on behalf of Edison Electric Institute on electricity restructuring issues, 1996.
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CERTIFICATE OF SERVICE

I hereby certify that the foregoing document was served this 25th day of July, 2011 by electronic mail, upon the persons listed below.

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