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FILE

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 Nos. 11-346-EL-SSO 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 Nos. 11-349-EL-AAM 11-350-EL-AAM

PREFILED TESTIMONY OF TAMARA S. TURKENTON

ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO
UTILITIES DEPARTMENT
ACCOUNTING & ELECTRICITY DIVISION

STAFF EX. ___

August 4, 2011

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1. Q. Please state your name and business address.

A. My name is Tamara S. Turkenton. My business address is 180 East Broad Street, Columbus, Ohio 43215.

2. Q. By whom are you employed and in what capacity?

A. I am employed by the Public Utilities Commission of Ohio as Chief of the Accounting and Electricity Division of the Utilities Department.

3. Q. Please briefly summarize your educational background and work experience.

A. I have earned a Bachelor of Business Administration in Finance and Business Pre-Law (BBA) from Ohio University. I have also earned a Master of Business Administration (MBA) degree from Capital University and a Master of Tax Laws (MT) degree from Capital Law School.

I have been employed by the Commission since June 1994 involved in the Electric Fuel Component (EFC) section, the Telecommunications section, the Competitive Retail Electric Service (CRES) section working on electric deregulation and SB 3, and the Rates & Tariffs section working on electric utility rates, tariffs, and rules. Most recently, I moved to the Accounting and Electricity Division working on many aspects of SB 221.

4. Q. Have you testified in prior proceedings before the Commission?

A. Yes.

5. Q. What is the purpose of your testimony in this proceeding?

A. My testimony focuses on aspects of AEP Ohio's (AEP or Companies) request for continuation of the Fuel Adjustment Clause (FAC), the Phase-In Recovery Rider (PIRR) and the Environmental Investment Carrying Cost Rider (EICCR).

Rider FAC

6. Q. Can you briefly describe the purpose and scope of FAC?

A. FAC began in 2009 as part of the Companies' current ESP (2009-2011). The FAC recovers the actual cost of fuel, purchased power, including capacity and other variable production costs such as environmental variable costs.[1] The Companies propose to continue FAC but have proposed some modifications. The Companies propose to modify the FAC by removing Account 557 and the REC expense from FAC and recovering the REC expense through a new AER rider.[2] In addition, bundled power products, currently recorded in Account 555, will be split into REC and non-REC

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1 Direct Testimony of Philip J. Nelson at 4, lines 11-13.

2 *Id.* at 7, lines 2-4.

components.[3] AEP proposes to recover the REC component through the new AER and the non-REC portion will continue to be recovered through the FAC.[4] The Companies also propose that FAC continue to be bypassable.

7. Q. Do you have any issues with the newly proposed REC and Non-REC components of FAC?

A. Staff is amenable to the Companies proposal in terms of "where" the REC and non-REC component costs will be recovered. Staff believes the energy portion (non-REC component) should continue to be recovered through the FAC. Staff witness Strom provides more detail and discussion regarding the REC portion and the newly proposed AER Rider (and the associated solar panels currently being recovered through Account 557 of FAC). Additionally, Staff agrees the FAC should continue to be bypassable.

8. Q. Did you review the Schedule E-4 (Exhibit DMR-1) in the Companies application regarding 2011-2013 FAC cost projections?

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3 Direct Testimony of Philip J. Nelson at 7, lines 4-5.

4 *Id.* at 7, lines 6-8.

A. Yes. The Companies illustrate in David M Roush's workpapers (Exhibit DMR-1)[5] *and discuss in Philip* J. Nelson's *testimony*[6] *the estimates for the* 2011 FAC situation comparing and contrasting Ohio Power's (OPCo) and Columbus Southern Power's (CSP) "FAC collection rate versus the actual FAC costs" in light of the 2009-2011 rate caps. The rate caps are scheduled to end with the expiration of the current ESP on December 31, 2011. The Companies propose in this filing to collect their actual fuel costs in 2012-2014 thereby eliminating any additional FAC phase-in deferrals starting in January 2012.[7] This results in matching FAC recovery rates with FAC costs for the period 2012-2014. The Companies also propose to recover fuel (including the phase-in recovery rate-PIRR) through one merged FAC rate.[8] I will discuss the PIRR in more detail later.

9. Q. Do you have any recommendations regarding FAC and the whether the Companies should recover fuel through one merged rate?

A. Yes. Since the Companies have not actually merged, nor have an approved and consummated merger, Staff is not supporting a merged FAC rate.

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[5] Volume 5 of the Companies ESP Application; Exhibit DMR-1 Summary of Requested Rate Increase.

[6] Direct Testimony of Philip J. Nelson at 10, lines 3-11.

[7] *Id.* at 10, lines 9-11.

[8] *Id.* at 10, lines 14-15.

However, Staff recommends that the Companies should be able to collect their actual fuel costs, thereby not creating a new bucket of fuel deferrals during the proposed 2012-2014 ESP period. As denoted in Exhibit DMR-1 all 2012-2013 FAC revenues were forecasted using the 2011 "projected full cost of fuel" which resulted in an approximately $125 million increase in forecasted FAC revenue for OPCo, and a $15 million decrease in forecasted FAC revenue for 2013-2014. Inherent in the word "forecast" is that it's likely not 100% accurate. Staff believes that it's likely OPCo's actual 2012 fuel costs will be larger than OPCo's current collection rate in 2011 (due to the caps) and adjustments (e.g. increasing OPCo's and decreasing CSP's FAC rates to correspond to the 2011 projected fuel revenues) are necessary starting in 2012 to allow the Companies to collect the actual costs of fuel. Although Exhibit DMR-1 is based solely on a forecast, the initial FAC rates established by this methodology appear to be reasonable and conducive to not creating additional deferrals going forward, especially in the OPCo territory. Staff will note the initial FAC rates are just that, "initial," and in place for one quarter. FAC will be trued up to actual fuel costs and revenues quarterly.

Therefore, based on the preceding discussion, Staff recommends that the Companies should be allowed to continue FAC and collect their current FAC costs during 2012-2014, but recommends the Commission approve two stand-alone FAC rates, one for CSP and one for OPCo, and not one merged rate.

PIRR

10. Q. Can you briefly describe the purpose of PIRR?

A. Based on Commission Orders in Case Nos. 08-917-EL-SSO and 08-918-EL-SSO, any deferred FAC expense that remains on the Companies' books on December 31, 2011 would be recovered as a non-bypassable surcharge for collection for a 7 year period from 2012 through 2018.

11. Q. Do you have any concerns or issues regarding the Companies plan for collecting the PIRR deferred fuel balance?

A. Yes. As Staff stated before, since the Companies have not actually merged nor have an approved and consummated merger, Staff is not supporting a merging of the PIRR to one stand-alone rate. The deferrals that are estimated to be remaining at the end of 2011 are OPCo deferrals and should be borne by OPCO customers, not CSP customers. Additionally, as stated in the Companies most recent FAC case,[9] the financial auditor brought to the Commission's attention that when applying the gross of tax WACC carry-

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[9] *In re Columbus Southern Power*, Case Nos. 10-268-EL-FAC, *et al.* (Report of the Management/Performance and Financial Audits of the FAC of the Columbus Southern Power Company and the Ohio Power Company) (May 26, 2011).

ing charge to the deferral balance there is not an off-setting credit to ADIT (Accumulated Deferred Income Taxes). The ADIT represents the tax savings realized by the Companies. Since there was a tax savings, the Companies did not have to finance the entire deferred FAC amounts during the 2009-2011 ESP period. The Companies only had to finance the net of tax deferral amounts, not the gross amount.

12. Q. Do you have any recommendations regarding PIRR?

A. Yes. Staff believes that in deferral situations akin to the PIRR where tax savings are achieved, ratepayers should not pay carrying charges on deferral amounts that were not financed by the Companies. Staff also believes that the carrying cost should be set at the most recently Commission-approved long-term debt rate once collection from customers commences in January of 2012. Staff witness Retterer, who discusses carrying charges on all proposed SSO Riders, discusses the details of the calculation and the carrying charges on all riders in more detail.

EICCR

13. Q. What is your understanding regarding the Companies' proposed modifications to Rider EICRR?

A. In its application, The Companies state that "they are requesting that beginning with the 2012 filing, a forecast of spending be incorporated into the rider to eliminate the lag between expenditures and recovery.[10] The Companies are also "requesting that beginning January 2012, the environmental rider will include environmental O&M." [11] Additionally, the Companies "are proposing that the environmental rider rate be calculated to reflect one rate for AEP Ohio"[12] and "proposing to change the collection method from an overall percentage of base generation charge to a per kWh charge by class."[13] Lastly, the Companies are "requesting the EICCR to be non-bypassable as contemplated by section 4928.143(B)(2)(b)"[14]

14. Q. What are your recommendations regarding the Companies proposed non-bypassability of EICCR?

A. The Companies application states they are "requesting the EICCR to be non-bypassable as contemplated by R.C. 4928.143(B)(2)(b)"[15] In Staff's opinion R.C. 4928.143(B)(2)(b) is detailing the requirements to obtain an

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[10] Direct Testimony of Andrea E. Moore at 7, lines 16-19.

[11] Direct Testimony of Andrea E. Moore at 7, lines 21-22.

[12] *Id* at 8 lines 3-4 .

[13] *Id* at 8 lines 4-6.

[14] Direct Testimony of Philip J. Nelson at 16, lines 22-23.

[15] Direct Testimony of Philip J. Nelson at 16 lines 22-23.

allowance for construction work in process (CWIP) for an EDU's cost of constructing an electric generating facility or for an environmental expenditure for any electric generating facility of the EDU."[16] Staff maintains that all environmental expenditures for which the Companies seek a non-bypassable charge as referenced in R.C. 4928.143(B)(2)(b) must meet the requirements as set forth in R.C. 4928.143(B)(2)(b). Therefore, those projects and/or costs that were detailed in PJN (Support AEM-1) that include anything other than CWIP should not be recovered as they do not meet the Staff's interpretation of the requirements under 4828.143(B)(2)(b) for a non-bypassable charge. The plain reading of the statute allows recovery only for CWIP for environmental expenditures. Any additional investment outside of CWIP is not recoverable under the section of the statute the Companies requested.

15. Q. If the Commission were to decide to approve the continuation of EICCR do you have any recommendations for the EICCR rider going forward?

A. Yes. Staff proposes that, if the Commission extends the EICCR rider, it should continue EICCR in its current form with modifications based on recent Commission orders. EICCR should continue to be a bypassable rider. Staff submits that environmental expenditures are generation-related

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[16] Am. Sub. S.B. 221.

type expenditures and as such should be bypassable by nature. Additionally, the inclusion of O&M costs are not in the current EICCR rider and should not be recovered in any new EICCR rider if there is an extension by the Commission of EICCR. Staff also believes that the Companies should have to spend the EICCR dollars and then ask for recovery, not forecast the costs and true-up the EICCR at a later date. Additionally, Staff believes that the rider collection mechanism should stay on a percentage of base generation revenue and not migrate to collection on a kWh basis. Also, please refer to Staff Witness Retterer for changes regarding EICCR "carrying cost" factor calculations relating to depreciation and administrative and general (A&G) factors. Finally, as previously stated throughout the testimony, Staff is not supporting a merged EICCR rate.

16. Q. Do you have any policy recommendations for the EICCR if the Commission were to approve that it continue?

A. Yes. Based on the uncertainty surrounding, among other things, new environmental laws, the Companies should consult with Staff, prior to including any costs in Rider EICCR, regarding the types of environmental costs that are eligible for inclusion. This consultation is to ensure that Staff and the Companies agree that the costs are for environmental requirements. In the

Commission's Finding and Order[17] in the review of this year's environmental rider case, the Commission stated that..."to support the Commission in evaluating the necessity and reasonableness of new environmental investments for which AEP-Ohio seeks recovery in the EICCR, the Commission directs Staff to work with AEP-Ohio to provide, within any future application for recovery during the current ESP, a demonstration that the new environmental investments made during the current ESP were to comply with laws, statutes, rules, regulations, or court order related to environmental requirements, or changes therein, a description of AEP-Ohio's long-term environmental compliance strategy with the basis for the new environmental investment and an explanation for how the current investments supports its overall strategy." Staff believes that this should occur in this pending ESP application. The mechanics of how this should occur should be reviewed in a separate proceeding prior to the filing of the EICCR each year. The process and timeframes for that separate proceeding should be set by order of the Commission. Staff would note that in a data request response[18] the Companies stated that, "for any large environmental capital projects that are critical to decisions about maintaining the viability of a

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17 *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company to Update the Environmental Investment Carrying Costs Rider*, Case No. 11-1337-EL-RDR (Finding and Order at 5, 6) (June 29, 2011).

18 Response to Staff-Interrogatory DR 25 INT-001 (April 12, 2011).

particular generating unit the Company plans to show the detailed need for that project through a separate filing. Otherwise, it is anticipated that the general audit process that has been performed for the current EICRR will continue."[19] Based on the preceding discussion, Staff believes that the audit of environmental expenditures for which the Companies may seek recovery under the proposed ESP, must be modified to incorporate the latest Commission order.

17. Q. Does this conclude your testimony?

A. Yes. However, I reserve the right to submit supplemental testimony as described herein, as new information subsequently becomes available or in response to positions taken by other parties.

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19 *Id.*

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Prefiled Testimony of Tammy S. Turkenton,** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following Parties of Record, this 4th day of August, 2011.

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