

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio) Power Company and Columbus Southern) Power Company for Authority to Merge) and Related Approvals.)	Case No. 10-2376-EL-UNC
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
In the Matter of the Application) of Columbus Southern Power) Company to Amend its Emergency) Curtailment Service Riders)	Case No. 10-343-EL-ATA
In the Matter of the Application) of Ohio Power Company) to Amend its Emergency Curtailment) Service Riders)	Case No. 10-344-EL-ATA
In the Matter of the Commission Review of) the Capacity Charges of Ohio Power) Company and Columbus Southern Power) Company.)	Case No. 10-2929-EL-UNC
In the Matter of the Application of) Columbus Southern Power Company) for Approval of a Mechanism to Recover) Deferred Fuel Costs Ordered Under) Ohio Revised Code 4928.144)	Case No. 11-4920-EL-RDR
In the Matter of the Application of) Ohio Power Company for Approval) of a Mechanism to Recover) Deferred Fuel Costs Ordered Under) Ohio Revised Code 4928.144)	Case No. 11-4921-EL-RDR

**TESTIMONY OF LAURA J. THOMAS
IN SUPPORT OF THE STIPULATION AND RECOMMENDATION
ON BEHALF OF
COLUMBUS SOUTHERN POWER COMPANY
AND
OHIO POWER COMPANY**

Filed: September 13, 2011

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LAURA J. THOMAS

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1 **PERSONAL DATA**

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

3 A. My name is Laura J. Thomas. My business address is 1 Riverside Plaza, Columbus,
4 Ohio 43215.

5 **Q. PLEASE INDICATE BY WHOM YOU ARE EMPLOYED AND IN WHAT**
6 **CAPACITY.**

7 A. I am employed as Managing Director – Regulatory Projects and Compliance in the
8 Regulatory Services Department of American Electric Power Service Corporation
9 (AEPSC), a wholly owned subsidiary of American Electric Power Company, Inc.
10 (AEP). AEP is the parent company of Columbus Southern Power Company (CSP)
11 and Ohio Power Company (OPCo), referred to collectively as AEP Ohio, or the
12 Company.

13 **BUSINESS EXPERIENCE**

14 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND**
15 **AND BUSINESS EXPERIENCE.**

16 A. I graduated from The Ohio State University in 1979 with a Bachelor of Science
17 Degree in Mathematics with a Statistics minor. I also received a Master of Science
18 degree in Mathematics from The Ohio State University in 1981. I joined AEPSC in

1 1982 and held various analyst positions in the rate design and cost of service group
2 over the next several years.

3 During the period of 1996 through 2003, I held the positions of Director –
4 Pricing and Contracts and Director of Regulated Pricing and Analysis. In May 2003 I
5 was promoted to Vice President – Fuel and Cost Recovery within Commercial
6 Operations. In June 2005, I moved to the risk function where I held the position of
7 Vice President – Enterprise Risk and Insurance with responsibility for American
8 Electric Power's (AEP) enterprise risk oversight process, risk and insurance
9 management, including insurance procurement and claims handling, and oversight of
10 the insurance captive utilized by the Company. Effective March 1, 2010, I moved to
11 the Regulatory Services Department where my responsibilities include special
12 projects related to regulatory issues and compliance.

13 **Q. HAVE YOU EVER SUBMITTED TESTIMONY AS A WITNESS BEFORE A**
14 **REGULATORY COMMISSION?**

15 A. Yes. I have testified or submitted testimony before regulatory commissions in the
16 states of Indiana, Michigan, Oklahoma, Tennessee, Virginia and West Virginia and
17 before the Federal Energy Regulatory Commission. I have also testified before the
18 Public Utilities Commission of Ohio (Commission) on behalf of CSP and OPCo.

19 **PURPOSE OF TESTIMONY**

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

21 A. The purpose of my testimony is to support the September 7, 2011 Stipulation and
22 Recommendation (Stipulation). In particular, I address the first of three components
23 of the Market Rate Offer (MRO) Test as identified in Paragraph IV.7 of the

1 Stipulation which includes the development of Competitive Benchmark Prices and
2 the Market Rate Offer Price Test.

3 **Q. WHAT EXHIBITS ARE YOU SPONSORING IN THIS PROCEEDING?**

4 A. I am sponsoring Exhibits LJT-1 and LJT-2.

5 **MARKET RATE OFFER TEST**

6 **Q. PLEASE GENERALLY DESCRIBE THE MRO TEST IN THE AGGREGATE.**

7 A. I have been advised by counsel that the purpose of the MRO test is to determine how
8 the stipulated ESP in the aggregate compares to the expected outcome under an
9 MRO. Three Company witnesses address the various components used to determine
10 that the ESP and all of its elements as set forth the Stipulation, in the aggregate,
11 passes the MRO test. My testimony addresses only the MRO Price Test which
12 compares the Stipulation ESP price with a market price. Company witness Allen
13 addresses the quantification of other items contained in the Stipulation. Company
14 witness Hamrock addresses those items in the Stipulation which are qualitative.
15 Together, these three components are used to determine that the ESP under the
16 stipulation compares favorably to the expected outcome under an MRO.

17 **MARKET RATE OFFER PRICE TEST**

18 **Q. PLEASE EXPLAIN THE MRO PRICE TEST.**

19 The expected prices that would otherwise occur under a MRO are determined by a
20 weighting of adjusted prior ESP prices and competitive market prices. My testimony
21 will address how the Stipulation ESP prices, as provided by Company witness Roush,
22 compare to MRO prices during the period of the stipulated ESP until an auction
23 determines the ESP prices (January 2012 through May 2015).

1 **Q. PLEASE DESCRIBE THE PRICES NEEDED FOR THE DETERMINATION**
2 **OF MRO PRICES FOR THE PROPOSED ESP PERIOD.**

3 A. Two prices are needed to determine the expected results of an MRO during the
4 proposed ESP period – a Competitive Benchmark price and a generation Standard
5 Service Offer price (SSO). The Competitive Benchmark price is based on market
6 data and includes the items that would be included by a supplier providing retail
7 electric service to AEP Ohio customers. The generation SSO price is a function of
8 generation pricing from the Company’s 2009-2011 ESP adjusted for certain
9 generation-related items.

10 **Q. HOW IS THE COMPETITIVE BENCHMARK DETERMINED?**

11 A. A Competitive Benchmark price is determined using the components that would be
12 expected in pricing retail generation supply in the competitive market. I have been
13 advised by counsel that Section 4928.20(J), Ohio Revised Code, provides some
14 general guidance on the items that should be included in the Competitive Benchmark
15 where it discusses the market price for governmental aggregation customers that
16 return to the utility for competitive retail service. The provision states that “...such
17 market prices shall include, but not be limited to”

- 18 • Capacity Charges;
- 19 • Energy Charges;
- 20 • All charges associated with the provision of power supply through the
21 regional transmission organization (RTO), including but not limited to,
22 transmission, ancillary services, congestion, and settlement and administrative
23 charges; and

- All other costs incurred by the utility that are associated with the procurement, provision and administration of that power supply.

Additional items typically included in the capacity and energy charges to retail customers are basis adjustments, load following/load shaping adjustments, losses, retail administration costs and transaction risk adjustments. Consistent with the guidance cited above, ten distinct components have been used to determine the Competitive Benchmark price.

Q. WHAT OTHER INFORMATION WAS REVIEWED FOR DETERMINATION OF THE COMPONENTS OF THE COMPETITIVE BENCHMARK PRICE?

A. States with deregulated electricity markets were reviewed to determine which pricing components are used to set competitive rates in the auctions for generation service. The components for pricing in the states of Delaware, Maryland, New Jersey, Pennsylvania and Illinois were reviewed because 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. In addition, First Energy's competitive bid process used for full requirements SSO service incorporates comparable pricing components. While the names of the components may differ by state or utility, the components are similar to those used by the Company in the Competitive Benchmark price.

Q. DID THE COMPANY INCLUDE ANY OTHER MARKET PRICE COMPONENTS IN THE COMPETITIVE BENCHMARK PRICE?

1 A. Yes. An Alternative Energy Requirement was added to reflect the requirements that
2 will be, or are anticipated to be, applicable to suppliers during the period of January
3 2012 through May 2015.

4 **Q. WHAT WAS THE COMPANY'S GENERAL APPROACH IN**
5 **DETERMINING EACH COMPONENT OF THE COMPETITIVE**
6 **BENCHMARK PRICE?**

7 A. The Company's approach was to develop Competitive Benchmark prices based on
8 ten distinct components using verifiable, publicly available information for each
9 component wherever possible. Where more qualitative data was used, the
10 experiences of various deregulated states were used to reflect a reasonable and
11 balanced approach in determining an appropriate charge. Based on the ten
12 components, Competitive Benchmark prices were developed for the residential,
13 commercial and industrial classes and were then weighted based on MWh to
14 determine total Competitive Benchmark prices for AEP Ohio. Prices were also
15 developed for three periods. The first period was 2012, the second was the 17-month
16 period for January 2013 through May 2014, and the third period was for June 2014
17 through May 2015.

18 **Q. PLEASE DESCRIBE EACH OF THE COMPONENTS OF THE**
19 **COMPETITIVE BENCHMARK PRICE AND HOW THOSE COMPONENTS**
20 **WERE DETERMINED.**

21 A. The components of the Competitive Benchmark Price, excluding the Capacity
22 component, are described below.

- 1 1. Simple Swap (SS) – this component is the “around the clock” price of the industry
2 standard energy product. It is traded through the broker market and on electronic
3 exchanges and, ideally, prices for the AEP load zone would be selected.
4 However, the nearest liquid trading location where market quotes are available is
5 the AEP-Dayton Hub and therefore this location was used as a proxy for the AEP
6 load zone.
- 7 2. Basis Adjustment – this adjustment is based on the historic relationship between
8 pricing points. Applying such an adjustment to the AEP-Dayton Hub SS prices
9 results in prices at the AEP load zone which is where PJM settles all AEP Ohio
10 loads. Such an adjustment would not be required if market quotes were readily
11 available for the AEP load zone.
- 12 3. Load Following/Shaping Adjustment – this adjustment, applied to the SS
13 component, accounts for the fact that customers do not use a constant amount of
14 energy across all hours of the day and that customers will deviate from their
15 historic load profile. The calculations are the result of modeling that uses CSP
16 and OPGco hourly class load shapes, publicly available PJM market prices and
17 historic volatility.
- 18 4. Ancillary Services - this component prices the cost of ancillary services required
19 by PJM to serve load in the Company’s service territory.
- 20 5. Alternative Energy Requirement – Section 4928.64, Ohio Revised Code requires
21 that all suppliers meet certain requirements for the mix of alternative energy
22 resources that must be used to serve load in Ohio. This component reflects the
23 anticipated incremental market cost of meeting that requirement.

- 1 6. ARR Credit – this item captures the credit allocated to offset PJM congestion
2 charges. It is based on published, historical values adjusted as necessary for
3 announced transmission upgrades.
- 4 7. Losses – this component captures the cost of distribution and fixed transmission
5 losses that must be supplied in order to meet the customer’s power requirements
6 at the meter.
- 7 8. Transaction Risk Adder – this item reflects a variety of risks that vary based on
8 the unique profile and business objectives of an individual bidder. Examples of
9 supplier risks include commodity price risk, migration risk, counterparty default
10 risk and credit risk.
- 11 9. Retail Administration Charge – the component captures the costs that a supplier
12 would incur to participate in an auction and fulfill the contractual obligations in
13 the event the supplier was successful in the auction. This includes the cost of
14 personnel, overhead, taxes, profit, etc.

15 **Q. WHAT DATES WERE SELECTED FOR DETERMINING THE SS PRICE?**

16 A. The SS prices are the standard industry energy product priced at PJM’s AEP-Dayton
17 hub whose price changes daily. The SS prices for the five trading days between July
18 7 and July 13 were averaged for use in determining the SS component of the
19 Competitive Benchmark. These dates were selected to match those utilized by the
20 Staff in their August 4, 2011 testimony in this case and to avoid the issue of selecting
21 dates to produce a biased result.

22 **Q. IF THE SS PRICE CHANGES, DO ALL COMPONENTS OF THE**
23 **COMPETITIVE BENCHMARK CHANGE AS WELL?**

1 A. No. Only the load following/shaping adjustment, losses, and the transaction risk
2 adder will change based on changes in the SS price. The remaining components are
3 independent and are not affected by the SS price.

4 **Q. WHAT IS THE CAPACITY COMPONENT AND WHAT INFORMATION**
5 **WAS USED TO DETERMINE THAT COMPONENT?**

6 A. The Capacity component includes the capacity cost that a supplier, either a CRES
7 (competitive electric retail service) provider or winning bidder in an auction, would
8 incur to serve a retail customer in AEP Ohio's service territory. Three different
9 capacity scenarios, and therefore three Competitive Benchmark prices, were
10 developed as follows. The first and second capacity scenarios are based on the
11 provisions of Paragraph IV.2.b.1, Paragraph IV.2.b.3 and Appendix C of the
12 Stipulation which identify both a fixed capacity price and RPM-based capacity prices.
13 The third capacity scenario is based on the Company's full cost of capacity as
14 supported by Company witnesses Munczinski and Pearce.

15 **Q. PLEASE EXPLAIN EACH CAPACITY SCENARIO IN GREATER DETAIL.**

16 A. The first capacity scenario is identified in Paragraph IV.2.b.1 of the Stipulation as
17 \$255/Mw-day for the period January 2012 through May 2015. This represents a
18 capacity cost before capacity losses which are added as part of the conversion to a
19 price per kWh.

20 The second capacity scenario is also identified in IV.2.b.1 of the Stipulation as
21 the "PJM RPM-based capacity rate." Various adjustments are also identified as being
22 applicable for billing purposes, including capacity losses, and the capacity rates vary

1 by planning year. These rates, as supported by Company witness Pearce, are
2 provided in Exhibit KDP-5 of his testimony, and are restated in Table 1 below.

3 Table 1

Planning Year	RPM-based Billing Price
2011/2012	\$145.79
2012/2013	\$20.01
2013/2014	\$33.71
2014/2015	\$153.89

4
5 The third capacity scenario is the full capacity cost rate for the merged
6 Company as supported by Company witness Pearce and provided in Exhibit KDP-4
7 of his testimony. This rate is \$343.98/MW-day (before capacity losses) or \$355.72
8 after capacity losses.

9 **Q. USING EACH OF THE CAPACITY PRICES DISCUSSED ABOVE, WHAT**
10 **ARE THE RESULTING COMPETITIVE BENCHMARK PRICES BY CLASS**
11 **FOR EACH “YEAR” OF THE PERIOD FROM JANUARY 2012 THROUGH**
12 **MAY 2015?**

13 A. Tables 2 through 4 below show the weighted average yearly Competitive Benchmark
14 prices under each of the three capacity scenarios. Exhibit LJT-1 shows the ten
15 components contributing to each Competitive Benchmark price.

16 Table 2

AEP Ohio Competitive Benchmark Prices by Customer Class Capacity Cost of \$255/MW-day (\$/MWh)			
	2012	Jan 2013 - May 2014	Jun 2014 - May 2015
Residential	78.47	82.59	88.35
Commercial	70.53	74.21	78.91
Industrial	64.06	68.50	73.59
Weighted Average	70.53	74.66	79.85

1

Table 3

AEP Ohio Competitive Benchmark Prices by Customer Class RPM-Based Capacity Cost (\$/MWh)			
	2012	Jan 2013 - May 2014	Jun 2014 - May 2015
Residential	60.62	61.26	78.26
Commercial	57.16	58.33	71.59
Industrial	54.35	56.78	67.97
Weighted Average	57.16	58.68	72.32

2

3

Table 4

AEP Ohio Competitive Benchmark Prices by Customer Class Full Capacity Cost (\$/MWh)			
	2012	Jan 2013 - May 2014	Jun 2014 - May 2015
Residential	87.20	91.15	96.90
Commercial	77.06	80.51	85.07
Industrial	68.72	73.15	78.32
Weighted Average	77.03	81.03	86.22

4

5 **Q. PLEASE DESCRIBE THE GENERATION SSO PRICE .**

6 A. As identified in Section 4928.142 (D), Revised Code, one price needed for the MRO
 7 Price Test is the Company's "most recent standard service offer price" which may be
 8 adjusted for any of four identified cost components. Those four cost components are
 9 fuel, purchased power, costs of satisfying supply and demand portfolio requirements
 10 for Ohio (renewable and energy efficiency requirements), and costs to comply with
 11 environmental laws and regulations.

12 The Company's "most recent standard service offer price" is the generation
 13 rate approved by the Commission for the Company for 2011. Company witness
 14 Roush provided and supports that price.

15 **Q. PLEASE DESCRIBE ANY ADJUSTMENTS MADE TO THE 2011**
 16 **GENERATION PRICE.**

1 A. For comparability with the Competitive Benchmark, and as permitted by Section
2 4928.142 D, Ohio Revised Code, adjustments were made to the 2011 generation price
3 billed to customers. The adjustments are detailed below:

4 1. Because the fuel factors in effect for 2011 are capped and do not reflect the full
5 cost of fuel according to the provisions of the 2009-2011 ESP, an adjustment was
6 made to utilize the most recent full fuel cost approved by the Commission in Case
7 No. 11-281-EL-FAC.

8 2. As previously discussed for the Competitive Benchmark, there is an annual
9 renewable requirement for any supplier of load in Ohio. Because the impacts of
10 the renewable requirements for 2011 are reflected in the full fuel factor described
11 above, no further adjustments were made.

12 3. No additional adjustments were made for purchased power because purchases
13 related to renewable requirements are already included in the full fuel factor.

14 4. No further adjustments were made beyond reflecting the carrying costs on
15 environmental capital investment through 2011.

16 **Q. HAVE YOU PREPARED AN EXHIBIT WHICH DETAILS THE**
17 **CALCULATION OF THE MRO PRICE TEST?**

18 A. Yes, Exhibit LJT-2 details those calculations. First, the Total Generation Service
19 price is determined based on the adjustments previously described and as included in
20 the “market comparable” generation rate supported by Company witness Roush. The
21 average Total Generation Service for the period January 2012 through May 2015 is
22 \$60.06/MWh as shown on Line 3 of Exhibit LJT-2.

1 **Q. HOW IS THE EXPECTED BID PRICE DETERMINED?**

2 A. The Expected Bid Price is the proxy for the market rate. The provisions of the
3 Stipulation, in Paragraph IV.2.b.3 and Appendix C, set caps on the amount of
4 shopping load for which CRES providers will be billed for use of AEP Ohio's
5 capacity at RPM-based capacity rates. The remaining shopping load will be billed for
6 capacity based on \$255/MW-day. Accordingly, the weighted average Expected Bid
7 Price (\$70.98/MWh as shown on line 8 of Exhibit LJT-2) is based on a weighting of
8 the two Competitive Benchmark prices that reflect those different capacity rates. The
9 weightings by year were derived as shown in the following Table 5.

10 Table 5
Competitive Benchmark / Shopping Weightings

Year	Period	Months	Percentage		Percentage	
Calendar 2012	Jan - Dec 2012	12	79%		21%	
Jan 2013 - May 2014	Jan - Dec 2013	12		69%		31%
	Jan - May 2014	5		59%		41%
Jun 2014- May 2015	Jun - Dec 2014	7		59%		41%
	Jan - May 2015	5		59%		41%
			59%		41%	

12 **Q. HOW IS THE MRO ANNUAL PRICE DETERMINED?**

13 A. As described in Section 4928.142, Ohio Revised Code, the MRO Annual Price is
14 determined by weighting the Generation Service Price and the Expected Bid Price.
15 The prices are weighted for each "year" of the period (January 2012 through May
16 2015) resulting in the average MRO Annual Price shown in Line 13 of Exhibit LJT-2
17 (\$62.82/MWh). This MRO Annual Price is the basis for comparison to the
18 Stipulation ESP Prices for the period. Company witness Roush supports the

1 development of the Stipulated ESP Prices shown in Line 15 of Exhibit LJT-2 which
2 average \$61.15/MWh for the period.

3 **Q. WHAT WEIGHTINGS ARE APPLIED TO THE GENERATION SERVICE**
4 **PRICE AND THE EXPECTED BID PRICE IN EXHIBIT LJT-2 FOR EACH**
5 **YEAR?**

6 A. The weightings used for each year to determine the MRO Annual Prices are
7 summarized in Table 6 below. Even though there are only three distinct periods for
8 the development of the Expected Bid Price, increased weightings were applied each
9 year consistent with the increased weightings set forth in Section 4928.142(D), Ohio
10 Revised Code. For 2012, a weighting of 10% was applied to the Expected Bid Price.
11 For the 17-month period of January 2013 – May 2014, a composite weighting of 23%
12 was applied to the Competitive Benchmark price. A composite weighting of 34%
13 was used for the third 12-month period of June 2014 – May 2015.

14 Table 6
Generation Service / Expected Bid Price Weightings

Year	Period	Months	Percentage		Percentage	
Calendar 2012	Jan - Dec 2012	12	90%		10%	
Jan 2013 - May 2014	Jan - Dec 2013	12		80%		20%
	Jan - May 2014	5		70%		30%
			77%		23%	
Jun 2014- May 2015	Jun - Dec 2014	7		70%		30%
	Jan - May 2015	5		60%		40%
			66%		34%	

15

16 **Q. WHY ARE THESE ANNUAL WEIGHTINGS USED FOR PURPOSES OF**
17 **THE MRO PRICE TEST?**

1 A. I have been advised by Counsel that the provisions of Section 4928.142(D), Ohio
2 Revised Code, require that if the Company were to be in an MRO, it is required to
3 phase-in the MRO. Therefore, the expected results under an MRO would be the
4 result of the required phase-in using the appropriate percentages as set forth in
5 Section 4928.142(D), Ohio Revised Code as discussed above.

6 **Q. WHAT ARE THE RESULTS OF THE COMPARISON BETWEEN THE MRO**
7 **ANNUAL PRICE AND THE STIPULATION ESP PRICE?**

8 A. As shown in Exhibit LJT-2, the Stipulation ESP Price compares favorably to the
9 weighted average MRO Annual Price. The benefit shown under the MRO Price Test
10 is shown in Line 16 of Exhibit LJT-2, resulting in a value of \$1.67/MWh. It must be
11 noted that this does not include all benefits identified in the Stipulation. Those
12 additional benefits are discussed by Company witnesses Allen and Hamrock.

13 **Q. PLEASE EXPLAIN WHY CERTAIN RIDERS, AS IDENTIFIED IN THE**
14 **STIPULATION, WERE NOT INCLUDED FOR PURPOSES OF THE MRO**
15 **PRICE TEST.**

16 A. The Market Transition Rider (MTR), as discussed in Paragraphs IV.1.b and IV.1.c
17 and supported by Company witness Roush, is a revenue-neutral rider beginning in
18 2013. Therefore it would have no impact on the MRO Price Test. Company witness
19 Allen addresses the impact of this rider in 2012.

20 The Generation Resource Rider (GRR), as discussed in Paragraph IV.1.d and
21 supported by Company witness Allen, is a “place holder until such time as the
22 Commission approves any project-specific costs to be included in the GRR”.
23 Therefore there are no charges under this rider to be included in the MRO Price Test.

1 In addition, the GRR is a nonbypassable rider. Therefore, whether it is included or
2 not has no impact on the MRO Price Test.

3 The Green Power Portfolio Rider (GPPR), as discussed in Paragraph IV.1.k
4 and supported by Company witness Roush, does not affect any customers other than
5 those who elect service under that rider. As such there are no rider charges to
6 consider in the MRO Price Test.

7 The Alternative Energy Rider (AER), as discussed in Paragraph IV.1.l and
8 supported by Company witness Roush, is merely a separation of such costs out of the
9 fuel adjustment clause (FAC). Therefore, there are no costs to be considered in
10 addition to what is already reflected in the MRO Price Test.

11 The Load Factor Rider (LFR), as discussed in Paragraph IV.1.b and supported
12 by Company witness Roush, is a revenue-neutral rider. Therefore it would have no
13 impact on the MRO Price Test.

14 The FAC, as identified in Paragraph IV.1.m and supported by Company
15 witnesses Allen and Roush, is already included in the MRO Price Test. Because it is
16 an existing rider, if further adjustments were made to the FAC, such adjustments
17 would occur to both the Generation Service Price (lines 3 and 9 of Exhibit LJT-2) as
18 well as the Stipulation ESP Price (Line 15 of Exhibit LJT-2). While not necessary, if
19 the FAC is increased for forecasted fuel costs, the MRO Price Test still shows a
20 benefit.

21 All other riders are not for generation-related service and are not includable in
22 the MRO Price Test for generation-related service. Company witnesses Allen and

1 Hamrock discuss these other riders in determining that the Stipulation ESP is more
2 favorable in the aggregate than an MRO.

3 **Q. HAVE YOU PREPARED A SIMILAR CALCULATION TO THAT**
4 **PROVIDED IN EXHIBIT LJT-2 USING THE COMPETITIVE BENCHMARK**
5 **BASED ON THE COMPANY'S FULL COST OF CAPACITY?**

6 A. Yes. The third Competitive Benchmark price, as previously discussed, is based on
7 the Company's full cost of capacity as supported by Company witness Pearce. That
8 Competitive Benchmark price averages \$81.36/MWh over the period from January
9 2012 through May 2015 and results in an MRO Annual Price of \$65.15/MWh. When
10 the Stipulation ESP average price (\$61.15/MWh) is compared to the MRO Annual
11 Price, it results in a benefit of \$4.00/MWh.

12 **Q. DOES THIS CONCLUDE YOUR TESTIMONY IN SUPPORT OF THE**
13 **STIPULATION?**

14 A. Yes it does.

AEP Ohio
Electric Security Plan
Stipulation Competitive Benchmark Prices
by Component and Customer Class

Exhibit LJT-1
Page 1 of 3

Capacity Cost of \$255/MW-day

2012				
\$/mWh				
		Residential	Commercial	Industrial
1	Simple Swap	40.18	40.18	40.18
2	Basis Adjustment	0.58	0.58	0.58
3	Load Following/Shaping Adjustment	5.42	2.72	2.34
4	Capacity	20.88	16.88	11.93
5	Ancillary Services	0.60	0.60	0.60
6	Alternative Energy Requirement	0.54	0.54	0.54
7	ARR Credit	(1.40)	(1.06)	(0.93)
8	Losses	2.94	1.74	0.78
9	Transaction Risk Adder	3.74	3.36	3.05
10	Retail Administration	5.00	5.00	5.00
	Class Total	78.47	70.53	64.06
	Weighted Total	70.53		

Jan 2013 - May 2014				
\$/mWh				
		Residential	Commercial	Industrial
1	Simple Swap	43.75	43.75	43.75
2	Basis Adjustment	0.58	0.58	0.58
3	Load Following/Shaping Adjustment	5.42	2.72	2.58
4	Capacity	20.75	16.41	12.01
5	Ancillary Services	0.60	0.60	0.60
6	Alternative Energy Requirement	0.79	0.79	0.79
7	ARR Credit	(1.40)	(1.05)	(0.92)
8	Losses	3.17	1.88	0.84
9	Transaction Risk Adder	3.93	3.53	3.26
10	Retail Administration	5.00	5.00	5.00
	Class Total	82.59	74.21	68.50
	Weighted Total	74.66		

Jun 2014 - May 2015				
\$/mWh				
		Residential	Commercial	Industrial
1	Simple Swap	47.82	47.82	47.82
2	Basis Adjustment	0.58	0.58	0.58
3	Load Following/Shaping Adjustment	6.29	3.00	2.78
4	Capacity	20.75	16.11	12.29
5	Ancillary Services	0.60	0.60	0.60
6	Alternative Energy Requirement	1.03	1.03	1.03
7	ARR Credit	(1.40)	(1.05)	(0.94)
8	Losses	3.48	2.05	0.92
9	Transaction Risk Adder	4.21	3.76	3.50
10	Retail Administration	5.00	5.00	5.00
	Class Total	88.35	78.91	73.59
	Weighted Total	79.85		

AEP Ohio
Electric Security Plan
Stipulation Competitive Benchmark Prices
by Component and Customer Class

Exhibit LJT-1
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RPM-Based Capacity Cost

2012				
\$/mWh				
		Residential	Commercial	Industrial
1	Simple Swap	40.18	40.18	40.18
2	Basis Adjustment	0.58	0.58	0.58
3	Load Following/Shaping Adjustment	3.62	2.15	1.83
4	Capacity	5.78	4.74	3.19
5	Ancillary Services	0.60	0.60	0.60
6	Alternative Energy Requirement	0.54	0.54	0.54
7	ARR Credit	(1.40)	(1.06)	(0.93)
8	Losses	2.83	1.72	0.77
9	Transaction Risk Adder	2.89	2.72	2.59
10	Retail Administration	5.00	5.00	5.00
	Class Total	60.62	57.16	54.35
	Weighted Total	57.16		

Jan 2013 - May 2014				
\$/mWh				
		Residential	Commercial	Industrial
1	Simple Swap	43.75	43.75	43.75
2	Basis Adjustment	0.58	0.58	0.58
3	Load Following/Shaping Adjustment	3.64	2.18	2.09
4	Capacity	2.33	1.85	1.35
5	Ancillary Services	0.60	0.60	0.60
6	Alternative Energy Requirement	0.79	0.79	0.79
7	ARR Credit	(1.40)	(1.05)	(0.92)
8	Losses	3.05	1.86	0.84
9	Transaction Risk Adder	2.92	2.78	2.70
10	Retail Administration	5.00	5.00	5.00
	Class Total	61.26	58.33	56.78
	Weighted Total	58.68		

Jun 2014 - May 2015				
\$/mWh				
		Residential	Commercial	Industrial
1	Simple Swap	47.82	47.82	47.82
2	Basis Adjustment	0.58	0.58	0.58
3	Load Following/Shaping Adjustment	5.38	2.75	2.55
4	Capacity	12.11	9.40	7.17
5	Ancillary Services	0.60	0.60	0.60
6	Alternative Energy Requirement	1.03	1.03	1.04
7	ARR Credit	(1.40)	(1.04)	(0.94)
8	Losses	3.42	2.04	0.92
9	Transaction Risk Adder	3.73	3.41	3.24
10	Retail Administration	5.00	5.00	5.00
	Class Total	78.26	71.59	67.97
	Weighted Total	72.32		

AEP Ohio
Electric Security Plan
Stipulation Competitive Benchmark Prices
by Component and Customer Class

Exhibit LJT-1
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Full Capacity Cost

2012			
\$/mWh			
	Residential	Commercial	Industrial
1 Simple Swap	40.18	40.18	40.18
2 Basis Adjustment	0.58	0.58	0.58
3 Load Following/Shaping Adjustment	6.38	3.03	2.61
4 Capacity	28.17	22.77	16.09
5 Ancillary Services	0.60	0.60	0.60
6 Alternative Energy Requirement	0.54	0.54	0.54
7 ARR Credit	(1.40)	(1.06)	(0.93)
8 Losses	3.00	1.75	0.78
9 Transaction Risk Adder	4.15	3.67	3.27
10 Retail Administration	5.00	5.00	5.00
Class Total	87.20	77.06	68.72
Weighted Total	77.03		

Jan 2013 - May 2014			
\$/mWh			
	Residential	Commercial	Industrial
1 Simple Swap	43.75	43.75	43.75
2 Basis Adjustment	0.58	0.58	0.58
3 Load Following/Shaping Adjustment	6.28	2.98	2.81
4 Capacity	27.99	22.14	16.20
5 Ancillary Services	0.60	0.60	0.60
6 Alternative Energy Requirement	0.79	0.79	0.79
7 ARR Credit	(1.40)	(1.05)	(0.92)
8 Losses	3.22	1.89	0.85
9 Transaction Risk Adder	4.34	3.83	3.48
10 Retail Administration	5.00	5.00	5.00
Class Total	91.15	80.51	73.15
Weighted Total	81.03		

Jun 2014 - May 2015			
\$/mWh			
	Residential	Commercial	Industrial
1 Simple Swap	47.82	47.82	47.82
2 Basis Adjustment	0.58	0.58	0.58
3 Load Following/Shaping Adjustment	7.14	3.24	3.00
4 Capacity	27.99	21.73	16.58
5 Ancillary Services	0.60	0.60	0.60
6 Alternative Energy Requirement	1.03	1.03	1.04
7 ARR Credit	(1.40)	(1.04)	(0.94)
8 Losses	3.53	2.06	0.92
9 Transaction Risk Adder	4.61	4.05	3.73
10 Retail Administration	5.00	5.00	5.00
Class Total	96.90	85.07	78.32
Weighted Total	86.22		

AEP Ohio
Electric Security Plan
Stipulation Market Rate Offer Test
Market Rate Offer Price Test

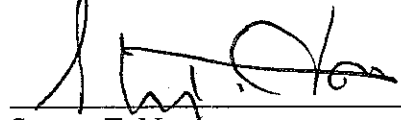
	2012	Jan 2013 - May 2014	Jun 2014 - May 2015	Wtd Average (4) = weighted (1), (2) and (3)
<u>Generation Service Price</u>	(1)	(2)	(3)	
1 2011 Base ESP 'g' Rate	27.12	27.04	27.04	27.06
2 2011 Full Fuel*	33.01	33.00	33.00	33.00
3 Total Generation Service Price	60.13	60.04	60.04	60.06
<u>Expected Bid Price</u>				
4 Competitive Benchmark - Capacity Cost	70.53	74.66	79.85	74.95
5 Shopping Benchmark Weight	79%	66%	59%	
6 Competitive Benchmark - RPM	57.16	58.68	72.32	62.21
7 Shopping Benchmark Weight	21%	34%	41%	
8 Expected Bid Price	67.72	69.23	76.76	70.98
<u>MRO Pricing</u>				
9 Generation Service Price	60.13	60.04	60.04	60.06
10 Generation Service Weight	90%	77%	66%	
11 Expected Bid Price	67.72	69.23	76.76	70.98
12 Expected Bid Weight	10%	23%	34%	
13 MRO Annual Price	60.89	62.15	65.72	62.82
<u>MRO - ESP Price Comparison</u>				
14 MRO Annual Price	60.89	62.15	65.72	62.82
15 Stipulation ESP Price	59.71	61.34	62.34	61.15
16 ESP Price Benefit**	1.18	0.81	3.38	1.67

* Includes "Renewable and Energy Efficiency Adjustment", updated based on Forecast FAC for Jul-Sep 2011 Fuel from Case No. 11-281-EL-FAC

** Does not include all ESP Benefits included in the Settlement

CERTIFICATE OF SERVICE

I hereby certify that a copy of the testimony of Laura J. Thomas was served on the persons stated below via electronic mail, this 13th day of September 2011


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Summary: Testimony Testimony of Laura J. Thomas electronically filed by Mr. Steven T Nourse
on behalf of American Electric Power Service Corporation