



American Electric Power
1 Riverside Plaza
Columbus, OH 43215-2373
AEP.com

March 23, 2012

The Honorable Greta See
Attorney Examiner
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215

Re: *Ohio Power Company*, Case No. 10-2929-EL-UNC

Steven T. Nourse
Senior Counsel –
Regulatory Services
(614) 716-1608 (P)
(614) 716-2014 (F)
stnourse@aep.com

Dear Ms. See:

On March 14, 2012, you issued a scheduling entry that, among other things, afforded Ohio Power Company (dba AEP Ohio) an opportunity to update or revise the testimony that was filed on August 31, 2011 in this proceeding. Today, AEP Ohio is filing the enclosed testimony to be sponsored by the following witnesses during the upcoming evidentiary hearing:

Richard E. Munczinski, AEP
Frank C. Graves, The Brattle Group
Kelly D. Pearce, PhD, AEP
Dana E. Horton, AEP
William A. Allen, AEP

With the exception of Mr. Allen, the four remaining witnesses had previously filed testimony on August 31, 2011 and are now submitting an updated/revised version of their Direct Testimony. For those four witnesses, a redlined version of testimony is also being submitted solely for the convenience of the parties so that they can see the specific changes made from the August 31, 2011 versions (regarding the exhibits of Dr. Pearce, only a portion of KDP-7 changed). During the April 17, 2012 hearing, AEP Ohio will sponsor and introduce for admission into the evidentiary record the clean, updated version of each piece of testimony that is being filed today. Please note that the testimony of William A. Klun that was filed on August 31, 2011 is no longer being sponsored and should be considered withdrawn.

Thank you for your attention to this matter.

Respectfully Submitted,

EXHIBIT NO. _____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission Review)	
of the Capacity Charges of)	Case No. 10-2929-EL-UNC
Columbus Southern Power Company)	
and Ohio Power Company)	

DIRECT TESTIMONY OF
RICHARD E. MUNCZINSKI
ON BEHALF OF
OHIO POWER COMPANY

Filed: March 23, 2012

INDEX TO DIRECT TESTIMONY OF
RICHARD E. MUNCZINSKI

	<u>Page</u>
<u>No.</u>	
1. Personal Data.....	1
2. Purpose of Testimony.....	2
3. Witnesses in the Case.....	3
4. Background of the Case.....	4
5. AEP Ohio's Position.....	8
6. Conclusion.....	15

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
RICHARD E. MUNCZINSKI
ON BEHALF OF
OHIO POWER COMPANY

1 **PERSONAL DATA**

2 **Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

3 A. My name is Richard E. Munczinski and my business address is One Riverside
4 Plaza, Columbus, Ohio 43215.

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

6 A. I am employed by the American Electric Power Service Corporation (AEPSC), a
7 unit of American Electric Power (AEP). My title is Senior Vice President –
8 Regulatory Services, over regulatory activities across AEP’s operating companies,
9 including Ohio Power Company (OPCo), hereby referred to as AEP Ohio or the
10 Company.

11 **Q. WHAT ARE YOUR RESPONSIBILITIES AS SENIOR VICE PRESIDENT**
12 **–REGULATORY SERVICES?**

13 A. I am directly responsible for overseeing AEP’s regulatory activities before eleven
14 state regulatory commissions and the Federal Energy Regulatory Commission
15 (FERC). Additionally, I am AEP’s Chief Reliability Compliance Officer. In this
16 role, I oversee the development and implementation of strategic policy within
17 AEP to ensure compliance with North American Reliability Corporation (NERC)
18 reliability standards for the AEP system, as well as AEP’s participation in
19 regional transmission organization (RTOs).

1 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
2 **BACKGROUND?**

3 A. I earned a bachelor of engineering degree in electrical engineering and a master's
4 degree in management science from Stevens Institute of Technology in Hoboken,
5 New Jersey. I am a member of the Institute of Electrical and Electronics
6 Engineers.

7 Prior to joining AEP, I was an electrical engineer for Ebasco Services Inc.,
8 New York. I joined AEP in 1978 in the Project Engineering department and
9 transferred to Corporate Planning and Budgeting in 1982. I became Director of
10 Rate Case Management in 1992 and Vice President of Regulatory Services in
11 1996 leading the regulatory approval process for the merger with Central and
12 South West Corporation (CSW). I was named Senior Vice President - Corporate
13 Planning and Budgeting in 1998 and Senior Vice President - Shared Services in
14 2008. I have served in my current role as Senior Vice President-Regulatory
15 Services of AEP since January 2010.

16 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE A**
17 **REGULATORY AGENCY?**

18 A. I have testified or submitted testimony before the regulatory commissions in the
19 states of Ohio, Virginia, West Virginia, Michigan, Arkansas, Indiana, Kentucky,
20 Louisiana, Oklahoma, Texas and before the Federal Energy Regulatory
21 Commission (FERC).

1 **PURPOSE OF TESTIMONY**

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

3 A. I am AEP Ohio's overall policy witness supporting AEP Ohio's position that it
4 should be allowed to collect its capacity costs from Competitive Retail Electric
5 Service (CRES) providers. AEP Ohio maintains that its position is consistent
6 with the terms and conditions in the existing PJM Interconnection, LLC (PJM)
7 Reliability Assurance Agreement (RAA), as further discussed by Company
8 witness Horton. I have also been advised by counsel that, under the terms of the
9 RAA, the wholesale capacity rate to be charged by the Company to CRES
10 providers should be decided not by the Commission, but rather in a case that is
11 currently pending rehearing at FERC. Nonetheless, as directed by the Public
12 Utilities Commission of Ohio's (Commission) March 7, 2012 Entry, the
13 Company's testimony and exhibits, as updated from the filing made on August
14 31, 2011, will provide the Commission with the necessary evidence regarding the
15 appropriate capacity cost and a fair compensation mechanism pertaining to
16 capacity charges to be paid by CRES providers for use of AEP Ohio's capacity.
17 Additionally, I will explain why it is important that neither shareholders nor non-
18 shopping customers should subsidize CRES providers in their use of AEP Ohio
19 capacity. My testimony is supported by other witnesses testifying on behalf of
20 AEP Ohio in these proceedings and takes into account AEP Ohio's comments and
21 reply comments previously filed in this proceeding, Case No. 10-2929-EL-UNC
22 (Capacity Charges) case.

WITNESSES AND SPONSORED TESTIMONY

Q. HOW IS THE COMPANY'S CAPACITY CHARGES CASE FILING ORGANIZED?

A. AEP Ohio has five witnesses supporting various key issues for the Capacity Charges case. The following table summarizes and serves to introduce the witnesses, the general subject area each is sponsoring, and a brief description of the respective testimony.

Table 1: Witnesses in the Capacity Charges Case

Witness	Subject Area	General Description of Testimony
Richard E. Munczinski (AEP)	Policy Witness	<ul style="list-style-type: none">• Background of Case• AEP Ohio's position
William A. Allen (AEP)	Financial Analysis	<ul style="list-style-type: none">• Quantify Financial Harm Associated with RPM-priced capacity• Current Shopping Levels
Frank C. Graves (The Brattle Group)	Independent RPM Capacity Market Witness	<ul style="list-style-type: none">• Cost difference between PJM RPM price and AEP's embedded costs• Economic issues in CRES capacity pricing
Dana E. Horton (AEP)	PJM Capacity Market Witness	<ul style="list-style-type: none">• PJM's FRR and RPM capacity options• FRR rules and procedures• RPM auction process
Kelly D. Pearce (AEP)	Cost of Capacity Witness	<ul style="list-style-type: none">• AEP Ohio's cost of capacity• Formula rate description• Energy credit• CRES self-supply option

BACKGROUND OF THE CASE

Q. PLEASE DESCRIBE THE HISTORY OF THE CAPACITY CHARGES CASE WITH RESPECT TO AEP OHIO.

A. On November 1, 2010, AEP Ohio filed an application with the Federal Energy Regulatory Commission (FERC) in FERC Docket No. ER11-1995-000. On November 24, 2010, at the direction of FERC, AEP Ohio refiled its application in FERC Docket No. ER11-2183-000. As a Fixed Resource Requirement (FRR)

1 entity, AEP Ohio's application proposed to implement an existing clause within
2 the PJM RAA to change the basis of compensation for use of its capacity by
3 CRES providers to an AEP Ohio cost-based method.

4 Prior to 2007, and during the PJM Reliability Pricing Model (RPM)
5 auction development phase, AEP, as well as other parties, expressed concern over
6 the long-term negative impacts of the RPM capacity market on vertically
7 integrated utilities and their customers. Thus, as discussed in the testimony of
8 Company witness Horton, Section D.8 of Schedule 8.1 (Schedule D) of the PJM
9 RAA, or the FRR provision, was drafted to ensure that FRR entities could request
10 a cost-based method of recovering their capacity costs. Under FRR, there are
11 essentially three alternatives for pricing capacity provided to CRES providers: 1)
12 a properly designed retail state compensation mechanism and in the absence of
13 such a mechanism, 2) rates based on the PJM RPM capacity auction price, and 3)
14 a method based on the FRR entity's costs (a formula cost-based method) or such
15 other cost basis shown to be just and reasonable.

16 AEP Ohio has self-supplied its capacity as a FRR entity since the RPM
17 inception in June 2007, thus opting out of the PJM RPM auction market for
18 purposes of meeting its load obligations each year through planning year
19 2014/2015. Since the RPM auction inception, AEP Ohio has been compensated
20 at the adjusted PJM RPM auction price for supplying capacity associated with
21 load lost to CRES providers who choose not to self-supply their own capacity.
22 The CRES providers who choose not to self-supply merely act as a middle-man
23 on capacity flowing from AEP Ohio. While the RPM auction prices have

1 fluctuated significantly, the auction price for the next several years have dropped
2 to levels that would prevent AEP Ohio from receiving anything remotely
3 approaching full compensation from CRES providers for AEP Ohio capacity
4 costs.

5 In its November 2010 FERC application, AEP Ohio proposed cost-based
6 formula tariffs that were based on the Companies' 2009 FERC Form 1 filings.¹
7 AEP Ohio made this application to remedy the situation where CRES providers
8 were receiving a subsidy for their use of the Company's capacity due to the use of
9 RPM auction prices. Additionally, AEP Ohio filed this 2009 information in Ohio
10 in this Capacity Charges case. Company witness Pearce provides an update to
11 these rates based on 2010 information and provides the evidence of the proper
12 level of compensation to be recovered from CRES providers who utilize AEP
13 Ohio's capacity.

14 In response to AEP Ohio's November 2010 application to the FERC, the
15 Commission represented to FERC that as of December 8, 2010 it was "adopt[ing]
16 as the state compensation mechanism for the Companies the current capacity
17 charges established by the three-year capacity auction conducted by PJM," which
18 is the PJM RPM auction price.

19 On January 20, 2011, FERC issued an Order rejecting the AEP Ohio rate
20 proposal, not on the merits, but due to the Commission's December 8, 2010 order
21 stating that it was adopting an interim state compensation mechanism. AEP

¹ At the time of this filing, the merger of Ohio Power Company's predecessor companies, Columbus Southern Power Company and Ohio Power Company, had not been finalized. Hence, for 2009 and 2010, formula calculations were done for each company in recognition of their status as separate legal entities. The merger was effective as of December 31, 2011.

1 Ohio's application for rehearing of FERC's January 20, 2011 Order remains
2 pending before FERC. AEP Ohio also filed a complaint case, FERC Docket No.
3 EL11-32-000, to seek modifications to Schedule D of the RAA designed to clarify
4 the original intent as understood by AEP Ohio. The purpose of that filing was to
5 confirm that any state compensation mechanism must compensate FRR entities
6 for capacity costs through charges included in retail rates and to preserve the FRR
7 entities' right to submit filings under Section 205 of the Federal Power Act to
8 establish just and reasonable FRR charges. Otherwise, utilities may be forced to
9 accept rates at below cost levels.

10 **Q. DID AEP OHIO RENEW ITS FRR ELECTION FOR THE 2015/2016**
11 **PLANNING YEAR?**

12 A. No. AEP Ohio did not pursue an FRR election for the 2015/2016 Planning Year.
13 On March 7, 2012 AEP Ohio advised PJM that it would become an RPM entity
14 for purposes of capacity pricing for the 2015/2016 Planning Year. To be clear,
15 this decision means that the load of AEP Ohio will be in the RPM market starting
16 in mid-2015 and does not mean that all of the generation assets currently owned
17 by AEP Ohio will enter the RPM capacity market at that time. There is an
18 upcoming PJM process related to designation of particular units and that has not
19 presently been completed.

20 **Q. WHAT IS THE SIGNIFICANCE OF AEP OHIO BECOMING AN RPM**
21 **ENTITY IN THE PJM CAPACITY MARKET?**

1 A. AEP Ohio status as an RPM entity starting on June 1, 2015 means that the pricing
2 issues in this case become transitional in nature and only need to address the
3 period from June 1, 2012 through May 31, 2015.

4 **AEP OHIO'S POSITION**

5 **Q. PLEASE BRIEFLY SUMMARIZE AEP OHIO'S POSITION IN THIS**
6 **CAPACITY CHARGES CASE.**

7 A. AEP Ohio's position in the pending FERC proceeding and in this Ohio Capacity
8 Charges proceeding, which is set forth in detail in the Company's January 7, 2011
9 Application for Rehearing in this docket, is that the current capacity pricing
10 mechanism undercompensates AEP Ohio for the capacity it provides to CRES
11 providers. The impact on AEP Ohio's ability to be compensated for its costs has
12 become significant due to the trend in RPM auction prices, as well the growth in
13 shopping by AEP Ohio customers whose CRES providers take advantage of the
14 capacity supplied by AEP Ohio as opposed to supplying their own capacity.
15 These concerns prompted the November 2010 FERC filing. On advice of
16 counsel, it is my understanding that CSP and OPCo have the right under the RAA
17 to request that FERC establish the wholesale rate that the companies may charge
18 for capacity to CRES providers, which right they exercised in the November 2010
19 FERC filing, as amplified by the FERC complaint. However, given the FERC's
20 order on the Company's November 2010 filing and the Commission's entry in
21 this case, AEP Ohio will present evidence as to the proper level of compensation
22 to be recovered from CRES providers who utilize AEP Ohio's capacity.

1 **Q. WHAT ARE THE CONSEQUENCES OF ALIGNING A STATE**
2 **COMPENSATION MECHANISM WITH THE PJM RPM PRICE?**

3 A. Aligning the state compensation mechanism to the PJM RPM wholesale price
4 means that Ohio capacity is solely influenced by the administrative PJM and
5 RPM's auction process and its participants who may not have Ohio's best
6 interests in mind. To the extent that the Commission's December 8, 2010 Entry
7 eliminated other options for capacity compensation, it would, in my view,
8 undermine the ability to provide just and reasonable compensation to AEP Ohio
9 and the ability to provide customers with reliable and adequate service. During
10 the development phase of the RPM, the FERC addressed these concerns by
11 establishing alternative, non-RPM auction based methods for establishing
12 capacity prices for FRR entities.

13 Additionally, the RPM clearing price is a one-year price projected three
14 years in advance. As shown in the historical auction clearing prices presented in
15 Exhibit KDP-7 in the testimony of Company witness Pearce, these prices can
16 fluctuate dramatically from year to year. This provides little or no incentive to
17 invest in Ohio asset generation.

18 **Q. WHY IS IT APPROPRIATE TO TIE CAPACITY PRICES CHARGED TO**
19 **CRES PROVIDERS TO AEP OHIO'S COST OF CAPACITY?**

20 A. There are several reasons why CRES providers that are passing through AEP
21 Ohio's capacity should pay for use of that capacity based on AEP Ohio's costs.
22 First, it is important that neither shareholders nor non-shopping customers
23 subsidize CRES providers for use of AEP Ohio's capacity. Reliance on AEP

1 Ohio to supply capacity to CRES providers while not requiring those providers to
2 pay the cost of that capacity is inequitable. Second, cost-based compensation
3 represents a long-term view of affordable and reliable capacity for Ohio
4 customers in contrast to the short-term RPM-based pricing. Finally, because AEP
5 Ohio is an FRR entity, its capacity is dedicated to its Ohio customers. This
6 includes those customers who choose to shop and are served by CRES providers
7 who opt to utilize AEP Ohio's capacity. Accordingly, such capacity dedication
8 comes hand in hand with rates that are based on AEP Ohio's costs and not on the
9 RPM market.

10 **Q. HOW DOES AEP OHIO RECOVER ITS CAPACITY COSTS FROM**
11 **RETAIL CUSTOMERS THAT TAKE GENERATION SERVICE FROM**
12 **AEP OHIO?**

13 A. As described and submitted in AEP Ohio's Initial Comments filed in this
14 proceeding, AEP Ohio, as a Load Serving Entity (LSE) in PJM, does not
15 participate in the PJM RPM auction market for the purposes of meeting AEP
16 Ohio's load obligation. The cost of AEP Ohio's capacity resources that are used
17 by the CRES providers who fail to secure their own resources are recovered from
18 non-shopping retail customers through state jurisdiction, Commission-approved
19 generation rates. Such rates for January 2012 through May 2014 are the subject
20 of the Company's current 2012-2014 ESP case and are intended to cover AEP
21 Ohio's cost of generation, including the cost of capacity. However, CRES
22 providers who serve shopping customers, and who choose not to self-supply
23 capacity, are currently required to pay only the PJM RPM-based auction price.

1 Thus, while these CRES providers are using AEP Ohio's capacity resources, they
2 avoid paying the embedded generation capacity costs that are on the books of
3 AEP Ohio. Accordingly, AEP Ohio is forced to absorb the cost of an
4 unreasonable and ultimately unsustainable subsidy to CRES providers in Ohio.
5 The bottom line is CRES providers should provide fair compensation to AEP
6 Ohio for its capacity just as non-shopping customers do.

7 While the Commission opined in the December 8th Order that AEP Ohio
8 has other mechanisms for the recovery of capacity costs from retail customers,
9 this is not true. Shopping customers do not pay AEP Ohio for capacity costs, they
10 pay the capacity charged by CRES providers. Non-shopping customers only pay
11 SSO generation rates. AEP Ohio is not receiving compensation for CRES-related
12 capacity costs through any of its retail rate mechanisms. The Commission's
13 interim compensation mechanism, based on the RPM-based pricing, does not
14 provide adequate compensation for its costs of providing capacity to CRES
15 providers.

16 **Q. WHAT IS THE APPROPRIATE LEVEL OF COMPENSATION THAT**
17 **AEP OHIO SHOULD RECEIVE FROM CRES PROVIDERS FOR USE OF**
18 **AEP OHIO'S CAPACITY?**

19 A. AEP Ohio should be allowed just and reasonable compensation from CRES
20 providers based on AEP Ohio's embedded cost of capacity that will allow for
21 continued investment in Ohio generation resources. Such charges will not create
22 a subsidy, as is currently occurring. Such charges will facilitate long-term
23 resource adequacy and reliability.

1 **Q. WHY DID AEP OHIO DECIDE TO REQUEST A CHANGE IN FRR**
2 **COMPENSATION METHODS?**

3 A. As other AEP Ohio witnesses support, adjusted RPM-based capacity rates tend to
4 fluctuate over time while embedded cost-based rates are relatively stable. At this
5 particular time in the market cycle, adjusted RPM-based capacity rates are below
6 AEP Ohio's embedded costs. As reflected in Exhibit KDP-7 in the testimony of
7 Company witness Pearce, the adjusted RPM-based rates not only fluctuate year to
8 year, but are well below the cost of a new combined cycle unit (Gross CONE).
9 Therefore, AEP Ohio determined that it was time to utilize the cost-based method
10 with the full understanding that it would require FERC approval of the proposed
11 rates. Based on 2010 FERC Form 1 data, as calculated by Company witness
12 Pearce, capacity rates are \$327.59/MW-day for Columbus Southern Power (CSP)
13 and \$379.23/MW-day for OPCo or \$355.72/MW-day on a combined basis for
14 AEP Ohio.

15 **Q. WHAT ARE THE IMPACTS TO AEP OHIO IF THE RATES BASED ON**
16 **EXISTING RPM AUCTION PRICES REMAIN THE ONLY APPROVED**
17 **COST COMPENSATION MECHANISM?**

18 A. AEP Ohio would experience serious financial harm, the details of which are
19 separately discussed by AEP Ohio witness Allen in his testimony.

20 **Q. WHAT ARE THE LONG-TERM GENERATION CAPACITY SUPPLY**
21 **CONCERNS ASSOCIATED WITH THE CURRENT RPM-BASED**
22 **CAPACITY PRICING MECHANISM?**

1 A. During the development phase of the RPM model, the Ohio Commission had
2 concerns with protecting a state's generation resource adequacy. As stated in the
3 Commission's comments in FERC Docket No. EL05-148-000:

4 "...PJM's rules do not recognize the need to recover reasonable
5 investment costs nor the timely repayment of debt—bedrock principles
6 required for financing an industry as capital intensive as the electricity
7 industry." (p.14).

8 The Commission goes on to state:

9 "Generator owners cannot long survive on recovery of the short run
10 marginal cost of energy alone, but must consistently recover some of their
11 long run marginal costs as well." (p.14).

12 The Ohio Commission's previous state policy recognized an obligation to
13 ensure adequate supply of generation resources for the customers of Ohio and, as
14 a result, they approved AEP Ohio's standard service offer pricing in the 2009-
15 2011 ESP case. Additionally, the state compensation mechanism alternative was
16 drafted into the PJM RAA to address these generation supply concerns as
17 discussed by Company witness Horton.

18 While AEP Ohio believes the November 2010 FERC application for the
19 cost-based method will address long-term supply concerns, if the Commission
20 seeks to establish a properly designed non-interim state compensation mechanism,
21 then the rate must ensure reasonable compensation for costs incurred by suppliers
22 that build or have built generation. A just and reasonable state compensation
23 mechanism should provide for the compensation of embedded costs of generation,
24 but also provide incentives for investment in generation. A state compensation
25 mechanism that is based on short-term RPM auction prices would amount to an

1 abdication of the authority to ensure long-term generation adequacy and reliability
2 within the state.

3 **Q. HOW CAN THE COMMISSION ADDRESS THESE CONCERNS AND**
4 **PROMOTE INVESTMENT IN THE STATE OF OHIO?**

5 A. By allowing AEP Ohio to be appropriately compensated for its costs associated
6 with capacity, the Commission will provide the investment community with more
7 certainty, eliminate some regulatory risk, and ensure sustained investment within
8 the state of Ohio. Without the Commission's support of an appropriate and
9 reasonable cost compensation mechanism, it would be imprudent and
10 irresponsible for AEP Ohio to invest long-term capital in an unclear, unstable cost
11 recovery environment. If left unaddressed or as reflected in the Commission's
12 December 2010 order regarding an interim state compensation mechanism, this
13 uncertainty, coupled with increasing environmental mandates puts Ohio
14 customers at risk for long-term in-state generation capacity deficiencies.

15 **Q. MANY OHIO CRES PROVIDERS HAVE EXPRESSED CONCERN WITH**
16 **ALLOWING THE COMPANY TO RECOVER ITS CAPACITY COSTS**
17 **AND HOW THAT MIGHT IMPACT COMPETITION WITHIN THE**
18 **STATE OF OHIO. HOW DO YOU RESPOND?**

19 A. Implementing a just and reasonable mechanism to allow AEP Ohio to recover its
20 capacity costs from CRES providers actually provides for a more equal and fair
21 competitive market in Ohio for generation services. If CRES providers choose
22 not to self-supply, the Company must provide the capacity resources to the CRES
23 provider. Commission support of recovery of capacity costs through appropriate

1 wholesale charges to CRES providers will mitigate the anticompetitive subsidy
2 that currently flows to CRES providers which use AEP Ohio's capacity. I am
3 advised by counsel that the subsidy undermines the explicit state policy
4 referenced in Ohio Revised Code §4928.02 (H) and allows for CRES providers to
5 pay a much lower rate than AEP Ohio non-shopping customers who use the same
6 capacity resources.

7
8 **CONCLUSION**

9 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

10 A. AEP Ohio maintains that the Commission, as well as the FERC, must honor the
11 long recognized distinction between its authority to regulate retail electric rates
12 and the FERC's authority over wholesale electric rates, whether the rates relate to
13 sale of energy or the sale of capacity. AEP Ohio has consistently maintained the
14 legal position (through counsel) that the RAA, even with implicit FERC approval,
15 cannot alter the bright-line between retail rate regulation and wholesale rate
16 regulation. A properly designed state compensation mechanism to compensate a
17 FRR entity for its capacity obligations must, at a minimum, allow the FRR entity
18 to recover its costs of providing capacity to support shopping. Otherwise, the
19 state compensation mechanism will not appropriately compensate the FRR entity
20 for capacity.

21 Second, AEP Ohio disagrees that the Commission's interim compensation
22 mechanism, based on the RPM auction-based pricing, provides adequate
23 compensation for its costs of providing capacity to CRES providers. Moreover,

1 AEP Ohio is not receiving compensation for those capacity costs through any of
2 its retail rates charged to shopping or non-shopping customers.

3 Third, as demonstrated by Company witnesses Allen's and Pearce's
4 testimonies, AEP Ohio is not receiving adequate compensation for performing its
5 FRR capacity obligations, and the gap between its costs and the compensation for
6 those costs is increasing at an alarming rate. The failure to recover just and
7 adequate compensation for its FRR capacity obligations is threatening AEP
8 Ohio's financial stability and is a significant disincentive for generation
9 investment within the state of Ohio.

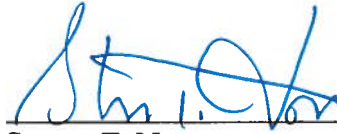
10 Furthermore, in this proceeding there is the additional issue of what is in
11 the best interests of Ohio and the retail customers of Ohio. The Commission
12 should not be looking to use the short-term market auction prices at the expense
13 of longer-term stability, reliability and investment in generation. That is a
14 "penny-wise, pound-foolish" approach that could be disastrous in the long run.
15 The Commission also should not allow a subsidy to CRES providers by
16 permitting artificially low capacity rates to prevail. Non-shopping customers pay
17 capacity charges that recover embedded costs. CRES providers, who choose not
18 to self-supply, should also pay capacity charges that recover embedded costs.

19 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

20 **A. Yes.**

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Columbus Southern Power Company's and Ohio Power Company's testimony of Richard E. Munczinski has been served upon the below-named counsel via electronic mail this 23rd day of March, 2012.



Steven T. Nourse

Email Addresses

greta.see@puc.state.oh.us,
jeff.jones@puc.state.oh.us,
Daniel.Shields@puc.state.oh.us,
Tammy.Turkenton@puc.state.oh.us,
Jonathan.Tauber@puc.state.oh.us,
Jodi.Bair@puc.state.oh.us,
Bob.Fortney@puc.state.oh.us,
Doris.McCarter@puc.state.oh.us,
Stephen.Reilly@puc.state.oh.us,
Werner.Margard@puc.state.oh.us,
William.Wright@puc.state.oh.us,
Thomas.Lindgren@puc.state.oh.us,
john.jones@puc.state.oh.us,
dclark1@aep.com,
grady@occ.state.oh.us,
keith.nusbaum@snrdenton.com,
kpkreider@kmklaw.com,
mjsatterwhite@aep.com,
ned.ford@fuse.net,
pfox@hilliardohio.gov,
ricks@ohanet.org,
stnourse@aep.com,
cathy@theoec.org,
dsullivan@nrdc.org,
aehaedt@jonesday.com,
dakutik@jonesday.com,
haydenm@firstenergycorp.com,
dconway@porterwright.com,
jlang@calfee.com,
lmcbride@calfee.com,
tallexander@calfee.com,
etter@occ.state.oh.us,

grady@occ.state.oh.us,
small@occ.state.oh.us,
cynthia.a.fonner@constellation.com,
David.fein@constellation.com,
Dorothy.corbett@duke-energy.com,
Amy.spiller@duke-energy.com,
dboehm@bkllawfirm.com,
mkurtz@bkllawfirm.com,
ricks@ohanet.org,
tobrien@bricker.com,
jbentine@cswlaw.com,
myurick@cswlaw.com,
zkravitz@cswlaw.com,
jejadwin@aep.com,
msmalz@ohiopoverlylaw.org,
jmaskovyak@ohiopoverlylaw.org,
todonnell@bricker.com,
cmontgomery@bricker.com,
lmcaster@bricker.com,
mwarnock@bricker.com,
gthomas@gtpowergroup.com,
wmassey@cov.com,
henryeckhart@aol.com,
laurac@chappelleconsulting.net,
whitt@whitt-sturtevant.com,
thompson@whitt-sturtevant.com,
sandy.grace@exeloncorp.com,
cmiller@szd.com,
ahaque@szd.com,
gdunn@szd.com,
mhpeticoff@vorys.com,
smhoward@vorys.com,
mjsettineri@vorys.com,
lkalepsclark@vorys.com,
bakahn@vorys.com,
Gary.A.Jeffries@dom.com,
Stephen.chriss@wal-mart.com,
dmeyer@kmklaw.com,
holly@raysmithlaw.com,
barthroyer@aol.com,
philip.sineneng@thompsonhine.com,
carolyn.flahive@thompsonhine.com,
terrance.mebane@thompsonhine.com,
cmooney2@columbus.rr.com,
drinebolt@ohiopartners.org,
trent@theoeg.com,

nolan@theoec.org,
gpoulos@enernoc.com,
emma.hand@snrdenton.com,
doug.bonner@snrdenton.com,
clinton.vince@snrdenton.com,
sam@mwncmh.com,
joliker@mwncmh.com,
fdarr@mwncmh.com,
jestes@skadden.com,
paul.wight@skadden.com,
dstahl@eimerstahl.com,
aaragona@eimerstahl.com,
ssolberg@eimerstahl.com,
tsantarelli@elpc.org,
callwein@wamenergylaw.com,
malina@wexlerwalker.com,
jkooper@hess.com,
kguerry@hess.com,
afreifeld@viridityenergy.com,
swolfe@viridityenergy.com,
korenergy@insight.rr.com,
sasloan@aep.com,
Dane.Stinson@baileycavalieri.com
Jeanne.Kingery@duke-energy.com

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

3/23/2012 4:29:04 PM

in

Case No(s). 10-2929-EL-UNC

Summary: Testimony of Richard E. Munczinski electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company