

**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)	Case No. 11-346-EL-SSO
Establish a Standard Service Offer)	Case No. 11-348-EL-SSO
Pursuant to §4928.143, Ohio Rev. Code,)	
in the Form of an Electric Security Plan)	

In the Matter of the Application of)	
Columbus Southern Power Company and)	Case No. 11-349-EL-AAM
Ohio Power Company for Approval of)	Case No. 11-350-EL-AAM
Certain Accounting Authority)	

**DIRECT TESTIMONY OF J. EDWARD HESS
ON BEHALF OF INDUSTRIAL ENERGY USERS-OHIO**

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Attorneys for Industrial Energy Users-Ohio

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1 **I. INTRODUCTION**

2 **Q1. Please state your name and business address.**

3 A1. J. Edward Hess, 21 East State Street, 17th Floor, Columbus, Ohio 43215

4 **Q2. By whom are you employed and in what position?**

5 A2. I am a Technical Specialist for McNees Wallace & Nurick LLC ("McNees")
6 providing testimony on behalf of Industrial Energy Users-Ohio ("IEU-Ohio").
7 IEU-Ohio is an association of commercial and industrial customers and functions
8 to address issues that affect the price and availability of energy they need to
9 operate their Ohio plants and facilities.

1 **Q3. Please describe your educational background.**

2 A3. I received a Bachelors of Business Administration degree from Ohio University in
3 1975 majoring in accounting. I completed the majority of Capital University's
4 Master of Business Administration program and I have completed many
5 regulatory training programs. I am a certified public accountant.

6 **Q4. Please describe your professional experience.**

7 A4. I have been employed by McNees since October 2009. In March 2009, I retired
8 from the Public Utilities Commission of Ohio ("Commission") after 30 years of
9 employment. My last position with the Commission was as the Chief of the
10 Accounting and Electricity Division of the Utilities Department. My duties
11 included ensuring statutory compliance with state and federal laws, rules,
12 regulations, and procedures governing utility regulation with the majority of that
13 responsibility in the electric industry. I was also responsible for the operating
14 income and rate base portions of base rates and general accounting matters in
15 all of the utility industries.

16 **Q5. Have you previously testified before the Commission?**

17 A5. As part of my responsibilities as a Commission employee, I have provided expert
18 testimony in numerous Commission proceedings. I began testifying in the early
19 1980's. More recently I provided written testimony in Case Nos. 09-872-EL-FAC
20 and 09-873-EL-FAC, 10-2929-EL-UNC and Case Nos. 11-351-EL-AIR and
21 11-352-EL-AIR on behalf of IEU-Ohio.

1 **Q6. What documents did you review before your recommendation?**

2 A6. I reviewed the majority of the documents in Case Nos. 99-1729-EL-ETP and
3 99-1730-EL-ETP shortly after the case was filed. I recently reviewed the
4 testimonies of Dr. John Landon, Dr. Edward P. Kahn, William R. Forrester,
5 Section F of the Application, the Stipulation filed on May 5, 2000, the Staff Report
6 filed on March 28, 2000, sections of the Opinion and Order filed on
7 September 28, 2000 and sections of the Entry on Rehearing filed on
8 November 21, 2000.

9 I also reviewed the testimonies of Robert P. Powers, Selwyn J. Dias, Philip J.
10 Nelson, William A. Allen, Laura J. Thomas, David M. Roush, Oliver J. Sever, Jr.,
11 Thomas E. Mitchell, Thomas L. Kirkpatrick and Frank C. Graves filed in this case,
12 and any other document mentioned in this testimony.

13 **II. PURPOSE OF THE TESTIMONY**

14 **Q7. What is the purpose of your testimony?**

15 A7. My testimony addresses some of the problems presented by Columbus Southern
16 Power Company's ("CSP") and Ohio Power Company's ("OP") (collectively
17 "AEP-Ohio") proposal to establish a two-tiered capacity charge for purposes of
18 setting the generation capacity price paid by competitive retail electric service
19 ("CRES") suppliers. I also address AEP-Ohio's request to implement a Pool
20 Termination Provision to recover lost revenues, and AEP-Ohio's request to
21 implement a non-bypassable transitional Retail Stability Rider ("RSR") to replace
22 lost revenues.

1 Based on the advice of counsel and my reasoning from that advice, it is my
2 opinion that AEP-Ohio's Modified Electric Security Plan ("ESP") request for a
3 two-tiered capacity charge, the Pool Termination Provision and the RSR, if
4 approved, will allow AEP-Ohio to receive additional generation service-related
5 transition revenue well beyond the time when the receipt of such revenue is
6 precluded by Ohio law and well after the amount and type of transition revenue
7 eligible for recovery from customers was addressed and resolved in prior Public
8 Utilities Commission of Ohio ("Commission") cases associated with AEP-Ohio's
9 implementation of Ohio's electric restructuring legislation enacted by the 123rd
10 General Assembly (Amended Substitute Senate Bill 3 or "SB 3"). AEP-Ohio's
11 opportunity to collect transition revenue was determined as a part of AEP-Ohio's
12 electric transition plans ("ETP") filed with the Commission in December 1999 as a
13 result of the enactment of SB 3. I therefore conclude that AEP-Ohio's proposal
14 for establishing the generation service capacity price paid by a CRES supplier,
15 the Pool Termination Provision and the RSR are unreasonable and, based on the
16 advice of counsel, illegal.

17 **III. TRANSITION REVENUES**

18 **Q8. Were you involved in AEP-Ohio's ETP filings?**

19 A8. Yes. As my testimony above states, I was employed by the Commission as a
20 staff member when the plan was filed and I supervised the review of AEP-Ohio's
21 transition cost request.
22

1 **Q9. What is your understanding of how and when SB 3 permitted collection of**
2 **transition revenue?**

3 A9. Like many states that enacted electric restructuring legislation in the late 1990's,
4 Ohio addressed the subject that was typically referred to as "stranded costs" for
5 those services for which a customer could select a competitive supplier. This
6 subject provoked most of the debate about how to move to a customer choice
7 structure, while at the same time being fair to utilities that may have been
8 negatively impacted if they were subjected to competition on day one of
9 customer choice. SB 3 implemented customer choice on January 1, 2001. SB 3
10 also provided an opportunity for the surviving regulated entity, the electric
11 distribution utility ("EDU"), to seek transition revenue associated with the
12 previously integrated electric generation function for a period of years, but not
13 after December 31, 2010. SB 3 contains the criteria that the Commission applied
14 to determine how much, if any, of the transition revenue claim was eligible for
15 recovery. When the Commission approved a transition revenue claim, it also
16 approved transition charges that the EDU could then charge shopping customers
17 for the period specified by the Commission. For non-shopping customers, the
18 transition charges were embedded in the default generation supply price and
19 were equal to the portion of the applicable default generation supply price that
20 was not avoidable by shopping customers.

21 **Q10. Please explain the difference between transition revenue and transition**
22 **costs.**

23 A10. An allowable claim for transition revenue had to be based on the positive
24 difference between the generation-related revenue stream for generation service

1 based on a date certain and capped price previously established by Ohio's cost-
2 based regulation and the generation-related revenue stream available from the
3 application of market pricing to generation service supply. In some cases, the
4 cost-based revenue stream was believed to be less than the market-based
5 revenue stream, and in this instance, there would have been no allowable
6 transition revenue claim and no "stranded costs" as a result of electric
7 restructuring. A positive difference in these unbundled default generation supply
8 prices created through implementation of SB 3 and market-based revenue
9 streams was referred to as a transition cost reflecting the differences in value
10 available to the generation business segment from two different means of
11 establishing price. Although the use of the term "transition costs" or "stranded
12 costs" may imply that SB 3 created a new type of generation-related costs that
13 were accounted for as some type of transition costs or stranded costs, SB 3 did
14 not do so.

15 **Q11. What is your understanding of the SB 3 criteria that were applied to**
16 **determine how much, if any, transition revenue could be approved by the**
17 **Commission and collected through transition charges?**

18 A11. It is my understanding that Section 4928.39, Revised Code, specified these
19 criteria. These criteria were applied to determine the total amount of generation-
20 related transition revenue that was eligible for collection through transition
21 charges if an EDU submitted a claim for transition revenue. SB 3 did not require
22 transition revenue to be addressed unless the EDU submitted a claim for
23 transition revenue.

Q12. Which EDUs submitted a claim for transition revenues?

A12. All of the EDUs, including CSP and OP, submitted a claim with their ETP applications which also contained the plans by which the formerly vertically integrated electric utility would separate, either structurally or functionally, into distribution, transmission and generation business segments subject to important requirements to facilitate “customer choice” and avoid differentiation or discrimination by the EDU as a consequence of a customer’s choice of a supplier of generation service.

Q13. More specifically, what is your understanding of the criteria that were used to determine how much, if any, of a particular transition revenue claim was eligible for collection through transition charges?

A13. As indicated previously, it is my understanding that Section 4928.39, Revised Code, contains the criteria used to determine the total allowable transition revenue claim. A transition revenue claim was eligible for collection through transition charges if the revenue claim was limited to:

- (1) Costs that were prudently incurred;
- (2) Costs that were legitimate, net verifiable, and directly assignable or allocable to retail electric generation service provided to electric consumers in this state;
- (3) Costs that were unrecoverable in a competitive market; and
- (4) Costs that the utility would otherwise have been entitled an opportunity to recover.

All four of the criteria had to be satisfied for the transition revenue claim to be recoverable. With these criteria and the firm service nature of the default

1 generation supply obligation of the EDU, the Commission evaluated transition
2 revenue claims based on a comparison of the revenue produced by the EDU's
3 unbundled and capped default generation supply price and a revenue stream
4 computed based on assumed market prices for the entire range of generating
5 services and fixed and variable costs used in Ohio's prior cost-based ratemaking
6 system. Since generation service was the only service declared to be
7 competitive by SB 3, the transition revenue evaluation process focused
8 exclusively on the generation business segment.

9 **Q14. Was the amount of a total generation-related transition revenue claim**
10 **potentially separated into different components?**

11 A14. Yes. The total allowable amount of any generation-related transition revenue
12 claim was separated if a portion of that total claim was based on a claim for
13 regulatory assets. The total transition charge resulting from any allowable
14 transition revenue claim was also separated to show a separate regulatory asset
15 charge. It is my understanding that SB 3 limited the Commission's ability to
16 make adjustments to the regulatory asset portion of an allowed transition charge
17 and also required the regulatory asset portion of a transition charge to end no
18 later than December 31, 2010. It is also my understanding that under SB 3, the
19 non-regulatory asset portion of any transition charge which was associated with
20 above-market generating plants had to end by no later than December 31, 2005
21 or the end of the market development period ("MDP"), whichever occurred first.
22 Based on the advice of counsel, I also understand that Section 4928.141,
23 Revised Code, which was added after SB 3, excluded any previously authorized

allowances for transition costs with the exclusion becoming effective on and after the date the allowance was scheduled to end under the prior rate plan.

Q15. Generally, how was the amount of generation-related transition revenue associated with above-market generating plants measured?

A15. If an EDU wanted to make a claim for transition revenue, it had to include the claim in its proposed ETP. A proposed ETP had to be filed 90 days after the effective date of SB 3. The statutory criteria discussed above were then used to determine how much of the generation-related transition revenue claim was eligible for collection through transition charges. For the generation plant-related portion of the transition revenue claim, the Commission's Staff used the net book value of generating assets at December 31, 2000 as the baseline to determine how much, if any, of the net, verifiable, prudently incurred book value of the EDU's generation assets (including generation-related regulatory assets) would not be recoverable in the market. In this context, the market included the entire market, including the wholesale and retail segments.

Various methods were used by EDUs to evaluate transition revenue claims. The most popular approach was a revenue-based approach. Generally, the revenue-based approach projected revenue streams for the various generating plants and computed a present value of the future estimated revenue streams. The present value of the estimated future revenue streams was then compared to the net book value of the generating plants at December 31, 2000. Generation plant-related transition costs were deemed to be positive (and potentially eligible for recovery through transition charges) if the present value of the projected revenue

streams was, in the aggregate, less than the net book value of the generating plants at December 31, 2000. Again, the generation plant-related transition revenue had to be recovered during the period beginning January 1, 2001 through either the end of the MDP or December 31, 2005, whichever occurred first.

IV. AEP-OHIO'S ETPs

Q16. Please describe the generation plant-related transition revenue claim made by CSP and OP in their proposed ETPs.

A16. CSP and OP filed their proposed ETPs on December 30, 1999. As a part of their proposed ETPs, OP and CSP submitted a claim for transition revenue which included both above-market generation plant costs and a regulatory asset component. CSP and OP relied upon Dr. John Landon to estimate the extent to which they had a basis for claiming generation plant-related transition revenue. Dr. Landon used a revenue-based approach that I described earlier in my testimony. Dr. Landon projected market-based generation revenue, expenses and capital expenditures for the period 2001 through 2030 using multiple scenarios reflecting different assumptions about natural gas prices and environmental regulations. He discounted these projections to December 31, 2000 to develop his net present value revenue stream and then compared this net present value to net generation plant and associated asset book values as of the same date, December 31, 2000. From this comparison, he rendered an opinion on the amount of generation plant-related transition revenue that the Commission should approve for CSP and OP (the present value revenue delta or

1 difference between a cost-based ratemaking revenue stream and a competitive
2 market revenue stream). The results of CSP and OP's witness Landon's
3 analysis are summarized on his Exhibit JHL-2 filed as a part of his direct
4 testimony which was filed on December 30, 1999 in the AEP-Ohio ETP
5 proceedings.¹ His Exhibit JHL-2 is attached to my testimony as Exhibit JEH-1.
6 Dr. Landon updated his schedules on April 19, 2000 in the same ETP cases.

7 **Q17. Did Dr. Landon's methodology for determining generation plant-related**
8 **transition revenue cover the generating plants and the time period that are**
9 **included in AEP-Ohio's proposed two-tiered capacity proposal for setting**
10 **the capacity price paid by a CRES supplier?**

11 A17. Yes. His methodology included all of the components of cost-based ratemaking
12 including return on investments, operation and maintenance expenses,
13 depreciation expense, taxes other than income taxes, and income taxes
14 associated with the total generation service (fixed and variable costs and both
15 wholesale and retail market segments). His analysis covered the period from
16 2001 through 2030.

17 **Q18. What were the results of his analysis?**

18 A18. Dr. Landon's testimony concluded that AEP-Ohio would be unable to recover a
19 significant amount of generation-related value in the competitive market.

¹ *In the Matter of the Application of Columbus Southern Power Company for Approval of an Electric Transition Plan and Application for Receipt of Transition Revenues*, Case Nos. 99-1729-EL-ETP, *et al.*, Direct Testimony of Dr. John Landon, Ex. JHL-2 at 1-4 (December 30, 1999) (hereinafter "AEP-Ohio ETP Cases").

1 **Q19. Did you rely on Dr. Landon's analysis to make a recommendation to the**
2 **Commission?**

3 A19. No. I have included a description of Dr. Landon's results to describe the type of
4 analysis that was performed to identify if an EDU had transition revenue, if so
5 how much, and any portion that needed to be separated as a result of being
6 associated with generation-related regulatory assets.

7 **Q20. Did the Commission's Staff perform an analysis to evaluate AEP-Ohio's**
8 **transition revenue claim?**

9 A20. Yes. The Staff hired a consultant, Resource Data International, to assist with the
10 evaluation of AEP-Ohio's generation plant-related transition revenue claim.

11 **Q21. Did the Staff agree with the results of AEP-Ohio's and Dr. Landon's**
12 **conclusions about the potential form of generation plant-related transition**
13 **revenue?**

14 A21. No. The Staff took exception to AEP-Ohio's estimate of above-market
15 generation costs. Other parties to the ETP cases contested AEP-Ohio's claim as
16 well.

17 **Q22. How was the dispute over AEP-Ohio's generation plant-related transition**
18 **revenue claim ultimately resolved?**

19 A22. As part of a settlement package that was approved by the Commission, CSP and
20 OP agreed to drop their generation plant-related transition revenue claim.² The

² *AEP-Ohio ETP Cases*, Entry on Rehearing at 4 (November 21, 2000). "The primary stipulation also addresses the netting of GTCs since AEP agreed to withdraw its claim for recovery of any GTCs set forth in its transition plans. To the extent that there may be stranded generation plant benefits, the signatory parties to the primary stipulation have agreed that AEP's withdrawal of GTCs reasonably offsets any

1 same Commission-approved settlement provided CSP and OP with the
2 opportunity to collect a significant amount of transition charges for regulatory
3 assets with the regulatory asset transition charges ending on December 31, 2007
4 for OP and December 31, 2008 for CSP. As part of this Commission-approved
5 settlement, AEP-Ohio also committed to not "... impose any lost revenue charges
6 (generation transition charges (GTC)) on any switching customer," an outcome
7 that was designed to encourage shopping.³

8 **Q23. Was this ETP settlement contested?**

9 A23. Yes, Shell Energy Services Company L.L.C. ("Shell") contested the settlement
10 based on its claim that the generation-related regulatory asset transition revenue
11 recommended in the settlement should have been reduced by "stranded
12 benefits" that Shell said existed for AEP-Ohio because AEP-Ohio's generating
13 assets were worth more in the market than they were worth under traditional
14 cost-based regulation.

15 **Q24. Did AEP-Ohio testify in support of the ETP settlement?**

16 A24. Yes, attached to my testimony is the prefiled AEP-Ohio testimony supporting the
17 settlement (Exhibit-JEH-2) and portions of the transcript from the ETP
18 proceedings in which the AEP-Ohio witness was cross-examined
19 (Exhibit-JEH-3).

possible stranded benefits. The Commission finds this compromise to be a reasonable resolution of the netting issue raised by the language in Section 4928.39(B), Revised Code." *Id.*

³ *AEP-Ohio ETP Cases*, Stipulation and Recommendation at 3 (May 8, 2000).

1 **Q25. At page 7 of AEP-Ohio witness Robert Powers' testimony, Mr. Powers**
2 **states that AEP-Ohio did not previously seek generation plant-related**
3 **transition revenue. Is Mr. Power's testimony correct?**

4 A25. No. As I have explained and the Commission's records confirm, AEP-Ohio did
5 seek such transition revenue and agreed to forego the opportunity to receive
6 transition revenue as part of a Commission-approved ETP settlement.

7 **Q26. Has AEP-Ohio acknowledged that it was given an opportunity to recover**
8 **above-market generation investments during the transition period created**
9 **by SB 3, that the period for doing so is over, and that it gave up whatever**
10 **opportunity it had to seek transition revenue?**

11 A26. Yes. AEP-Ohio recently (March 30, 2012) filed an application with the
12 Commission to secure approval of changes to its corporation separation plan in
13 Commission Case No. 12-1126-EL-UNC. As part of that application, AEP-Ohio
14 is proposing to transfer generating assets and the application seeks a waiver
15 from the Commission's rule [Rule 4901:1-37-09(C)(4), Ohio Administrative Code
16 ("O.A.C.")] that AEP-Ohio says would otherwise require the submission of an
17 analysis of the market value of the plants to be transferred. At page 7 of the
18 corporate separation application, AEP-Ohio states:

19 The request to waive Admin. Code Rule 4901:1-37-09(C)(4) is
20 reasonable because OPCo seeks to transfer its generating assets
21 to an affiliate within the same parent corporation, in compliance
22 with the mandate of R.C. 4928.17. Under SB 3, all of these
23 generation assets were subjected to market and EDUs therefore
24 were given a temporary opportunity to recover stranded generation
25 investments during a transition period. That transition period is
26 over. EDUs can no longer recover stranded generation
27 investments, and transferring the generation assets based on an

1 arbitrary determination of their current fair market value rather than
2 net book value would be inappropriate.⁴
3

4 In addition to the period for obtaining transition revenue or “stranded costs” being
5 over, AEP-Ohio agreed, as I identify in my testimony, to give up that opportunity
6 as part of the Commission-approved ETP settlement discussed earlier in my
7 testimony. That ETP settlement was contested by one party because the party
8 believed that AEP-Ohio had negative transition costs or “stranded benefits” and
9 argued that the “stranded benefits” (generation plant net book values below
10 market) should have been netted against the regulatory asset transition costs
11 authorized for AEP-Ohio to increase the shopping credits.

12 On November 6, 2000, AEP-Ohio filed a memorandum contra to the party’s
13 application for rehearing on the settlement’s treatment of transition
14 revenue. Beginning at page 6 of that memorandum, AEP-Ohio stated:

15 Under the Stipulation neither Company will impose any generation
16 transition charge on any switching customer. Stipulation,
17 Section IV. The Companies original transition plan filings included
18 GTCs calculated on the basis of a lost revenues approach. The
19 Commission in its Opinion and Order estimated that the claims that
20 the Companies had foregone as a result of their agreement not to
21 impose GTCs amounted to several hundred million
22 dollars. Nonetheless, Shell argues on rehearing that the
23 Commission erred in adopting the Stipulation’s resolution of the
24 Companies’ GTCs.
25

26 This argument illustrates perfectly the bankrupt nature of Shell’s
27 advocacy. Shell is relegated to arguing that the Stipulation is
28 unreasonable because it contains a provision that eliminates all
29 generation transition charges for both Companies. (emphasis
30 removed)⁵

⁴ *In the Matter of the Application of Ohio Power Company for Approval of Full Legal Corporate Separation and Amendment to Its Corporate Separation Plan*, Case No. 12-1126-EL-UNC, Application at 7 (March 30, 2012).

⁵ *AEP-Ohio ETP Cases*, Columbus Southern Power Company’s and Ohio Power Company’s Memorandum Contra Shell Energy Services Company, L.L.C.’s Application for Rehearing at 6-7 (November 6, 2000).

1 In the Commission's November 21, 2000 Entry on Rehearing addressing and
2 rejecting that party's protest of the Commission-approved settlement, the
3 Commission said:

4 The primary stipulation also addresses the netting of GTCs since
5 AEP agreed to withdraw its claim for recovery of any GTCs set forth
6 in its transition plans. To the extent that there may be stranded
7 generation plant benefits, the signatory parties to the primary
8 stipulation have agreed that AEP's withdrawal of GTCs reasonably
9 offsets any possible stranded benefits. The Commission finds this
10 compromise to be a reasonable resolution of the netting issue
11 raised by the language in Section 4928.39(B), Revised Code.⁶

12 **V. AEP-OHIO'S TWO-TIERED CAPACITY CHARGE**

13 **Q27. You provided testimony in AEP-Ohio's Case No. 10-2929-EL-UNC in which**
14 **AEP-Ohio requested a "cost-based" formula to set the capacity price that is**
15 **paid by a CRES supplier. In this case, AEP-Ohio is proposing a two-tiered**
16 **capacity charge. Does the change from the "cost-based" formula for**
17 **capacity charges to a two-tiered capacity charge change your view that**
18 **AEP-Ohio is improperly seeking to recover transition revenue through its**
19 **proposed capacity charge?**

20 **A27. No. In this proceeding, AEP-Ohio is continuing to seek approval of an above-**
21 **market capacity charge. Through its proposed capacity charge structure,**
22 **AEP-Ohio is seeking to collect the positive difference between the revenue**
23 **received by the generation business segment for generation capacity service**
24 **where such revenue is computed based on a known and measurable market-**
25 **based capacity price and revenue which AEP-Ohio has computed based either**
26 **on its version of a cost-based capacity formula rate charge or an arbitrary two-**

⁶ *AEP-Ohio ETP Cases*, Entry on Rehearing at 4 (November 21, 2000).

1 tiered capacity pricing structure. Regardless of the form or level of the capacity
2 charge proposal, AEP-Ohio is persistently seeking another opportunity to collect
3 transition revenue. The proposal which AEP-Ohio has put forward in this
4 proceeding is designed to provide AEP-Ohio with generation-related revenue it
5 says it will lose if customers shop and CRES suppliers pay a market-based
6 capacity price. This is a proposal to recover lost revenue which is conceptually
7 the same as the lost revenue claim that AEP-Ohio agreed to forego as part of the
8 ETP settlement I describe in my testimony.

9 **Q28. If approved, would the proposed two-tiered formula for setting the**
10 **generation service capacity price for CRES supplier's rates allow AEP-Ohio**
11 **to recover above-market generation costs?**

12 A28. Yes. Based on my understanding, the market-based prices for capacity are
13 based upon PJM Interconnection LLC's ("PJM") Reliability Pricing Model
14 ("RPM"). RPM relies on an auction process to secure adequate capacity
15 resources to meet projected demand for all load serving entities ("LSEs") that do
16 not elect the fixed resource requirement ("FRR") option under RPM. According
17 to IEU-Ohio witness Kevin Murray, the clearing prices in the most recent base
18 residual auctions for the balance of RTO zone were \$110.00 per megawatt-day
19 ("MW-day") for the 2011-2012 delivery year, \$16.46 per MW-day for the 2012-
20 2013 delivery year, \$27.73 per MW-day for the 2013-2014 delivery year and
21 \$125.94 per MW-day for the 2014-2015 delivery year.⁷ Based on Mr. Murray's
22 analysis of other market-based prices for capacity, I understand that the RPM

⁷ PJM conducts incremental auctions subsequent to the base residual auction for each delivery year that typically result in a small adjustment to the final capacity price for a delivery year.

1 capacity clearing prices are consistent with the market-based prices in bilateral
2 transactions involving willing buyers and sellers. AEP-Ohio's proposed two-
3 tiered rate would set the charge for capacity provided to CRES suppliers at
4 \$255.00 per MW-day or \$146.00 per MW-day.⁸ These charges are significantly
5 above prevailing market prices as determined by the PJM RPM process and as
6 otherwise described in Mr. Murray's testimony.

7 **Q29. Are capacity prices paid by CRES suppliers reflected in prices paid by**
8 **retail customers obtaining generation supply from a CRES supplier?**

9 A29. To analyze this from a regulatory perspective, you have to assume that they are
10 included. Common sense dictates that CRES suppliers will pass through known
11 changes in the prices of the products and services they sell to retail customers
12 unless there is competitive pressure blocking such pass-through. Since there
13 would not be any competitive pressure under AEP-Ohio's FRR structure, it is
14 unreasonable to assume that CRES suppliers will choose to forego passing
15 through the significantly above-market capacity prices to retail consumers.
16 Additionally, American Electric Power Service Corporation ("AEPSC"), on behalf
17 of an AEP-Ohio affiliate, stated to the Federal Energy Regulatory Commission
18 ("FERC") that it was AEPSC's belief that capacity charges assessed under its
19 proposed and so-called "cost-based" formula rate "...ultimately will be recovered
20 from retail customers..." including retail customers served by a competitive
21 supplier.⁹ Contrary to the suggestions that AEP-Ohio has made throughout

⁸ Direct Testimony of Robert P. Powers at 14 (March 30, 2012).

⁹ AEPSC made this statement in a Section 205 Application at FERC on behalf of Indiana Michigan Power Company ("I&M"). I&M's 205 Application contains the same formula-based rate approach that AEP-Ohio has requested be approved for it by FERC as well as the Commission.

1 these proceedings, in Case No. 10-2929-EL-UNC and in public statements about
2 the behavior of CRES suppliers, the statements made by AEPSC at FERC make
3 it clear that it would be unreasonable to assume that the significantly above-
4 market capacity charge that AEP-Ohio is seeking in these proceedings and
5 elsewhere will not be passed on to retail customers. Further, when
6 administratively estimating market prices for purposes of conducting the market
7 rate offer (“MRO”) versus ESP test, AEP-Ohio witnesses J. Craig Baker and
8 Laura Thomas have both included capacity prices as a necessary component of
9 a competitive retail market price.¹⁰

10 **Q30. Has AEP-Ohio described its request for a two-tiered capacity charge as a**
11 **transition charge?**

12 A30. Yes. On February 27, 2012, AEP-Ohio filed a motion seeking authorization to
13 implement the two-tiered generation service capacity charges until the
14 Commission resolves Case No. 10-2929-EL-UNC. In response to the
15 Commission’s Entry on Rehearing rejecting the Stipulation on February 23, 2012,
16 AEP-Ohio explained that it believed it had the ability to establish cost-based
17 rates, but complained that it was being forced to move to RPM-priced capacity
18 “without a reasonable transition mechanism” for “a transition period.”¹¹ In a press
19 release on the same day, the Chief Executive Officer of AEPSC stated, “The

AEPSC Transmittal Letter Accompanying Section 205 Application on behalf of Indiana Michigan Power Company at 6, FERC Docket ER12-1173 (February 29, 2012), available at: <http://elibrary.ferc.gov/idmws/common/OpenNat.asp?fileID=12904635>.

¹⁰ *In the Matter of the Application of Columbus Southern Power Company for Approval of an Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Assets*, Case Nos. 08-917-EL-SSO, *et al.*, Direct Testimony of J. Craig Baker at 13 (July 31, 2008) (hereinafter, “*AEP-Ohio ESP Cases*”); Direct Testimony of Laura J. Thomas, Ex. LJT-1 (January 27, 2011).

1 settlement agreement allowed AEP Ohio a reasonable transition to market over a
2 period of time.”¹²

3 AEP-Ohio previously relied upon PJM’s RPM to establish the market-based price
4 for generation service capacity, which was approved by the Commission. In this
5 proceeding, AEP-Ohio is proposing to change to a capacity pricing methodology
6 that, if approved, would provide AEP-Ohio with revenue for generation capacity
7 service that is significantly in excess of the revenue that AEP-Ohio would be able
8 to collect if a PJM-determined market-based price were used to determine the
9 revenue AEP-Ohio collects for generation capacity service provided to a CRES
10 supplier.

11 VI. POOL TERMINATION PROVISION

12 Q31. Will you describe your understanding of AEP’s Pool Termination 13 Provision?

14 A31. The Pool Termination Provision is included in AEP-Ohio witness Nelson’s
15 testimony. Mr. Nelson states that members of the AEP Pool provided written
16 notice of their mutual desire to terminate the existing AEP Pool Agreement on
17 three-year’s notice in accordance with Article 13.2. According to Mr. Nelson,
18 AEPSC, on behalf of the operating companies that are members of the AEP
19 Pool, will make a filing with FERC notifying it of the member’s intention to
20 terminate the Pool Agreement on January 1, 2014. Mr. Nelson requests that

¹¹ Ohio Power Company’s Motion for Relief and Request for Expedited Ruling at 5 (February 27, 2012).

¹² AEP-Ohio Press Release (February 27, 2012) (viewed at <https://www.aepohio.com/info/news/viewRelease.aspx?releaseID=1203>). A copy of the press release is attached as Exhibit JEH-2.

1 AEP-Ohio, the EDU, be authorized to make a subsequent application with this
2 Commission if needed to recover lost revenue related to the termination of the
3 AEP Pool Agreement.

4 **Q32. Does Mr. Nelson explain what he means by lost revenues?**

5 A32. Mr. Nelson states that by terminating the Pool Agreement, it will require “the
6 Company” to find new or additional revenues to recover the costs of its
7 generating assets, or reduce the costs of those assets. He states that the
8 capacity payments received by AEP-Ohio cannot be mitigated by opportunities in
9 the market alone.

10 **Q33. Has AEP-Ohio identified that it has the legal authority to request these lost**
11 **revenues?**

12 A33. No, and based on advice of counsel, none of the statutory provisions that define
13 what can be included in an ESP identify an allowance for anticipated lost
14 generation revenues resulting from termination of anything like the AEP Pool
15 Agreement. To the extent that AEP-Ohio may be exposed to lost revenue as a
16 result of Pool Agreement termination, the lost revenue should have been
17 included in the request for transition revenue which I have described earlier in my
18 testimony, a request that AEP-Ohio subsequently agreed to forego. The
19 generation function of AEP-Ohio was separated from AEP-Ohio, the EDU, when
20 AEP-Ohio's ETPs became effective on January 1, 2001 and generation service
21 became a competitive retail electric service. I would note that the corporate
22 separation requirements established by SB 3 became effective prior to
23 January 1, 2001. Lost generation revenues incurred after January 1, 2014

1 should not be recovered and I believe are not recoverable from Ohio retail
2 customers because of the commitment made by AEP-Ohio in the ETP settlement
3 and based on my understanding of Ohio law of what can be included in an ESP.

4 **Q34. Did the analysis that was performed in the ETP cases for transition revenue**
5 **contemplate the use of AEP-Ohio generation assets pursuant to the AEP**
6 **East Pool Agreement?**

7 A34. Yes. The revenue-based approach that I described earlier utilized a generation
8 output amount for each generating unit owned by CSP and OP regardless of
9 whether the output was for retail, wholesale or affiliated company purposes.
10 There were no attempts to separate the generation plants between retail,
11 wholesale, Pool or any other category.

12 Further evidence that would support the conclusion that all generating output was
13 considered is supplied by the fact that the baseline for the ETP transition revenue
14 analysis of lost revenue relied upon the total AEP-Ohio net plant balances as of
15 December 31, 2000. Again, there was no attempt to differentiate generation-
16 related investment between retail, wholesale, Pool or any other category. The
17 transition revenue claim process looked at the difference in total revenue streams
18 associated with the use of all the generating plants.

19 **Q35. Do you believe that AEP-Ohio's request to file for a Pool Termination**
20 **Provision should be approved by the Commission?**

21 A35. No. Among other things, the Pool Termination Provision is another proposal to
22 collect transition revenue. As I have stated before in this testimony, the complete
23 transition revenue opportunity was evaluated in the ETP process. This

1 evaluation included revenue erosion or lost revenue from the generating assets
2 participating in the AEP Pool. The Pool Termination Provision is unreasonable
3 and, based on the advice of counsel, illegal. I would also note that AEP-Ohio
4 has not identified the regulatory process that would be part of the Pool
5 Termination Provision. More specifically, the type of rider mechanism that is
6 contemplated by the Pool Termination Provision typically should be accompanied
7 by both financial and managerial audits to make sure that the rider is not used
8 improperly to make Ohio consumers responsible for inappropriate charges or
9 charges resulting from imprudent or unnecessary actions. Even if an ESP could
10 include a Pool Termination Provision like that proposed by AEP-Ohio, it would be
11 unreasonable to approve such a provision since AEP-Ohio has failed to identify
12 the financial and managerial audit process that would attach to such a provision.

13 VII. RETAIL STABILITY RIDER

14 Q36. Will you describe AEP-Ohio's request for an RSR?

15 A36. AEP-Ohio, the electric distribution company, is seeking authority to recover lost
16 base generation revenues, lost generation revenues associated with the
17 Environmental Investment Carrying Cost Rider ("EICCR"), lost CRES capacity
18 revenues and the lost revenues it may experience if the proposed \$3/MWh credit
19 for shopped load is approved. This additional lost revenue recovery mechanism
20 is the RSR which AEP-Ohio says is a transitional rider.

21 The RSR proposal uses 2011 revenue as a baseline and requests that the rider
22 be sufficient to guarantee AEP-Ohio a revenue level that will produce a 10.50%
23 return on equity. If approved, the RSR will be collected through May 2015. As

1 with the Pool Termination Provision, AEP-Ohio has failed to identify the financial
2 and managerial audit process that would attach to the RSR to make sure that the
3 RSR does not turn out to be a “blank check.”

4 The effect of the RSR is to provide the AEP-Ohio EDU with a guaranteed
5 revenue stream in the event the revenue collected for default generation supply
6 service is not equal to the targeted amount. There are no strings attached to the
7 use of the revenue produced by this revenue guarantee mechanism, no
8 reduction in rates to recognize the generation-related business and financial risk
9 that this mechanism transfers to shopping and non-shopping customers and, as
10 already noted, no identification of the financial or managerial audit process that
11 will apply to the RSR.

12 **Q37. Is the proposed RSR reasonable?**

13 A37. No. AEP-Ohio is proposing that this charge be applicable to all distribution
14 customers. This proposal is a misuse of the EDU status and responsibility as the
15 standard service offer (“SSO”) default supplier to subsidize its separated
16 generation function. This proposal would charge all customers for the lost default
17 generation-related revenue and do so without providing any benefits to
18 customers. Like the capacity charge proposal and the Pool Termination
19 Provision, the RSR proposal seeks to recover generation-related revenue that
20 may not be collected otherwise. Accordingly, the proposed RSR is another
21 improper attempt to collect transition revenue. Like the capacity charge proposal
22 and the Pool Termination Provision, the RSR effectively and improperly
23 rebundles AEP-Ohio’s distribution and generation functions, thereby violating

1 corporate separation requirements that apply when an EDU is seeking to provide
2 a competitive and non-competitive service. Therefore, I recommend that the
3 Commission reject the RSR proposal.

4 If the Commission decides to accept this proposal, it should be added to the cost
5 of the ESP proposal when comparing it to an MRO, a financial and management
6 audit process similar to that used for the fuel adjustment clause ("FAC") should
7 be made part of the RSR and the return component of the RSR should be
8 reduced to a reasonable return on long-term debt (rather than being based on a
9 weighted average cost of capital approach) to recognize the business and
10 financial risk that is lifted from AEP-Ohio and transferred to shopping and non-
11 shopping customers alike. Also, since the RSR is a non-bypassable generation-
12 related charge, governmental aggregation programs should be able to avoid the
13 charge similar to other non-bypassable generation-related charges available
14 through the ESP option.

15 **Q38. Will you briefly describe the role of the SSO as part of Ohio's electric**
16 **restructuring and adoption of a "customer choice" regulatory model?**

17 A38. With the enactment of SB 3, and as explained previously, the structure of the
18 vertically integrated industry changed significantly in part, as IEU-Ohio witness
19 Murray explains, to break the link between ownership and control of assets within
20 such an industry structure. With regard to competitive retail electric service such
21 as generation supply and effective January 1, 2001, the EDU was confined to the
22 role of a default supplier to customers not receiving competitive service from a
23 CRES supplier. This default supplier status currently allows the EDU to obtain

1 market-based compensation for default supply through the ESP or the MRO
2 options.

3 In addition to the default supply role of an EDU, SB 3 imposed numerous
4 requirements on an EDU to make sure that retail customers as well as CRES
5 suppliers are not subjected to an EDU's discretion in ways that would allow the
6 EDU to favor its owned or controlled assets or affiliated lines of business. I do
7 not believe that these principles and requirements can be ignored. When not
8 ignored, these principles and requirements act as barriers to the type of
9 proposals that AEP-Ohio is seeking in this proceeding. In 2008, Amended
10 Substitute Senate Bill 221 ("SB 221") altered the means by which an EDU could
11 be compensated for its default generation supply service, but SB 221 did not
12 change the core elements of the electric restructuring architecture contained in
13 SB 3.

14 **Q39. Can the generation supply portion of an EDU's SSO be provided by a**
15 **generation supplier affiliated with the EDU?**

16 A39. Yes. However, there are restrictions in Ohio on how the affiliated generation
17 service supplier may interact with the EDU. These restrictions include Ohio
18 requirements such as the corporate separation requirements. I also understand
19 that FERC has similar requirements that were adopted as part of FERC's efforts
20 to restructure the electric industry. The relationship between the affiliated
21 generation business segment and the EDU would take the form of a wholesale
22 transaction which I understand is subject to FERC's jurisdiction.

1 **Q40. Will you explain the Ohio restrictions?**

2 A40. SB 3 required the vertically integrated utility companies to unbundle generation,
3 transmission and distribution services and operate under corporate separation
4 plans to maintain walls between competitive and non-competitive services.
5 These separation plans were filed as a part of the ETP as required by Section
6 4928.17, Revised Code. The purpose of the corporate separation plan was
7 described in the filing requirements for the ETP under Rule 4901:1-20-16(A),
8 O.A.C.

9 Purpose and scope Electric utilities are required by section 4928.17
10 of the Revised Code, to file with the commission an application for
11 approval of a proposed corporate separation plan. The rule
12 provides that all the state's electric utility companies must meet the
13 same standards so a competitive advantage is not gained solely
14 because of corporate affiliation. This rule should create competitive
15 equality, preventing unfair competitive advantage and prohibiting
16 the abuse of market power. Generally, this rule applies to the
17 activities of the regulated utility and its transactions with its
18 affiliates. However, to ensure compliance with this rule,
19 examination of the books and records of other affiliates may be
20 necessary. Compliance with paragraph (G)(4) of this rule shall
21 begin immediately. Compliance with the remainder of this rule shall
22 coincide with the start date of competitive retail electric service,
23 January 1, 2001, unless extended by commission order for an
24 electric utility pursuant to division (C) of section 4928.01 of the
25 Revised Code.

26 **Q41. Did AEP-Ohio file a corporate separation plan with its ETP filings?**

27 A41. Yes. The plan was filed under Part B of the ETPs and was described and
28 supported by AEP-Ohio witness William R. Forrester. As Mr. Murray explains in
29 his testimony, the AEP-Ohio corporate separation plan left generating assets in
30 the current OP and CSP operating companies and transferred the "wires
31 business" to a to-be-formed regulated distribution company. AEP-Ohio's

1 proposed corporate separation plan was approved by the Commission as part of
2 the ETP settlement I discussed earlier in my testimony.

3 **Q42. As you understand it, did SB 3 require the vertically integrated electric**
4 **utilities to structurally separate the unbundled functions of the utility?**

5 A42. Yes. That is my understanding. However, it is also my understanding that the
6 Commission had some ability to permit the use of functional separation until
7 structural separation could be completed. Nonetheless, any use of functional
8 separation still had to provide for ongoing compliance with the policy specified in
9 Section 4928.02, Revised Code, and meet other requirements of SB 3 and the
10 Commission's rules.

11 **Q43. Has AEP-Ohio updated its corporate separation plan?**

12 A43. Yes. As a part of its rate stabilization plan (Case No. 04-169-EL-UNC), AEP-
13 Ohio requested and was granted authority to continue to be functionally
14 separated. In its first ESP plan (Case Nos. 08-917-EL-SSO, *et al.*), AEP-Ohio
15 requested to modify the corporate separation plan to allow each company to
16 retain its distribution and transmission assets and sell or transfer their generation
17 assets to an affiliate. The Commission ordered the companies to file for approval
18 of their corporate separation plan within 60 days after the effective date of the
19 Commission's SSO rules case.¹³ On June 1, 2009, AEP-Ohio filed its corporate
20 separation plan (Case No. 09-464-EL-UNC). The Commission concluded in that
21 case that AEP-Ohio has, in all material aspects, implemented their corporate

¹³ *In the Matter of the Adoption of Rules for Standard Service Offer, Corporate Separation, Reasonable Arrangements, and Transmission Riders for Electric Utilities Pursuant to Sections 4928.14, 4928.17, and 4905.31, Revised Code, as amended by Amended Substitute Senate Bill No. 221 Case No. 08-777-EL-ORD, Finding and Order (September 17, 2008), and Entry on Rehearing (February 11, 2009).*

1 separation plans in compliance with Section 4928.17, Revised Code, and the
2 orders of the Commission and that the corporate separation plans reasonably
3 comply with the rules set forth in Chapter 4901:1-37, O.A.C. CSP and OP were
4 recently granted authority to merge (Case No. 10-2376-EL-UNC) and AEP-Ohio
5 filed for full legal corporate separation and an amendment to its corporate
6 separation plan (Case No. 12-1126-EL-UNC).

7 **Q44. Does AEP-Ohio have separate accounting ledgers for different functions**
8 **within AEP-Ohio?**

9 A44. Yes. Based on information that I have reviewed over the past several years,
10 AEP-Ohio has separate functional accounting ledgers for at least the distribution
11 function and the generation function.

12 **Q45. Which functional entity within AEP-Ohio or affiliated with AEP-Ohio will**
13 **receive the capacity charge, Pool Termination Provision and RSR revenue**
14 **if these provisions of the Modified ESP are approved?**

15 A45. The revenue from these proposed ESP mechanisms will be billed and collected
16 by AEP-Ohio acting in its capacity as an EDU. The billing and collection of this
17 revenue, as well as the effective remitting of the revenue between functions
18 under the AEP-Ohio umbrella, will need to be recognized on the separate
19 distribution and generation function ledgers. AEP-Ohio's Modified ESP and
20 testimony supporting the Modified ESP do not identify how the internal
21 transactions between the unbundled functions within AEP-Ohio will be recorded
22 for accounting purposes.

1 **Q46. Do you believe that AEP-Ohio's capacity charge, Pool Termination**
2 **Provision and the RSR proposal conflict with your understanding of the**
3 **corporate separation requirements?**

4 A46. Yes. These proposals have been advanced by AEP-Ohio acting in its capacity
5 as an EDU which must be competitively neutral relative to any customer's choice
6 of a generation supplier. Instead of being competitively neutral, AEP-Ohio, the
7 EDU, is selectively advancing proposals to provide its generation business
8 segment with financial and other benefits or preferences not available to any
9 other supplier of generation service. Throughout this proceeding and in other
10 cases, AEP-Ohio has often portrayed itself as competing with CRES suppliers
11 even though AEP-Ohio, the EDU, can only provide generation supply when a
12 customer is not served by a CRES supplier. AEP-Ohio has also asserted that
13 the generation supply benefits of Ohio's customer choice must be delayed to
14 allow AEP-Ohio to adjust its latest business model. The claim that AEP-Ohio
15 needs additional time is irreconcilably inconsistent with the somewhat unique
16 wires-transfer corporate separation plan approved by the Commission for
17 AEP-Ohio. It is also my understanding that any competitive service provided by
18 AEP-Ohio, the EDU, must be provided through a separate entity that is not
19 benefitted by anything that AEP-Ohio, the EDU, does with regard to the provision
20 of non-competitive services.

21 When AEP-Ohio's capacity charge, Pool Termination Provision and RSR
22 proposals are considered in light of the role and purpose of the corporate
23 separation requirements, I believe it is clear that the Modified ESP is essentially
24 an attempt to bypass the corporate separation requirements for the benefit of

1 AEP-Ohio's generation business segment and to the disadvantage of retail
2 customers and CRES suppliers. Thus, the blueprint used by AEP-Ohio to
3 assemble its Modified ESP ignores the building code established by the General
4 Assembly and the Commission's rules. I believe that both alone and in
5 combination the two-tiered capacity charge proposal, the Pool Termination
6 Provision and the RSR proposal are unjust and unreasonable based on
7 numerous grounds, including the failure to abide by the corporate separation
8 requirements.

9 **Q47. If the Commission decides to accept the two-tiered capacity charge**
10 **proposal, the Pool Termination Provision and the RSR, should the costs of**
11 **these proposals be included as part of the Modified ESP and for purposes**
12 **of conducting the ESP versus the MRO test?**

13 A47. Yes. As explained by Mr. Murray in more detail in his testimony, if these
14 proposals are includable in an ESP, and I believe they are not includable, they
15 will impose additional costs on customers and, accordingly, this additional cost
16 should be properly recognized in the ESP versus MRO test.

17 **VIII. CONCLUSIONS**

18 **Q48. Should the Commission authorize recovery of above-market generation**
19 **plant-related costs through the two-tiered capacity pricing formula or the**
20 **Pool termination revenue erosion request that AEP-Ohio is now**
21 **proposing?**

22 A48. No. AEP-Ohio's proposals are strategically asymmetrical, unbalanced, unjust
23 and unreasonable. The potential for generation-related lost revenue resulting

1 from Ohio's customer choice regulatory model was analyzed and accounted for
2 as a part of the transition from cost-based regulation to market-based regulation
3 in AEP-Ohio's ETPs as required by SB 3. The amount of above-market
4 generation plant costs recoverable by AEP-Ohio was resolved in the ETP cases
5 by AEP-Ohio agreeing to drop its right to seek any transition revenue for above-
6 market generation plant costs. The time for bringing a transition revenue claim to
7 the Commission has passed. And, AEP-Ohio also committed, in the ETP
8 settlement, to not impose "...any lost revenue charges (generation related
9 transition charges (GTC)) on any switching customer."¹⁴ AEP-Ohio passed on
10 the opportunity for a transition to "customer choice" unencumbered by the legacy
11 of cost-based ratemaking as applied to generation plant and it did so as part of
12 the settlement package approved by the Commission.

13 I also believe it would be unreasonable, regardless of what the law may say, to
14 permit AEP-Ohio, the EDU, to selectively and strategically revise the methods
15 used to establish generation service capacity prices based on its desire to use
16 the method that produces the best revenue and earnings outcome for
17 AEP-Ohio's generation business segment in a context where the method that
18 AEP-Ohio and the Commission previously favored is now beneficial to
19 consumers.

20 Accordingly, I recommend that AEP-Ohio's proposals for the two-tiered capacity
21 charge and the Pool Termination Provision be rejected.

¹⁴ *AEP-Ohio ETP Cases*, Stipulation and Recommendation at 3 (May 8, 2000).

1 **Q49. Do you have any additional recommendations for the two-tiered capacity**
2 **charge?**

3 A49. I recommend that the actual amount of above-market capacity charge revenue
4 that AEP-Ohio has collected as a result of the December 14, 2011 Opinion and
5 Order in Case Nos. 11-346-EL-SSO, *et al.* and the March 7, 2012 Entry in this
6 proceeding be applied as an offset to regulatory asset balances that are eligible
7 for recovery from retail consumers. The amount of the offset should include
8 interest at the rate of interest or the carrying charge rate that AEP-Ohio is using
9 to accumulate the regulatory asset balances. Unless this offset is made,
10 consumers are unlikely to receive timely credit for the excessive rates that
11 AEP-Ohio has been allowed to collect for service provided in Ohio.

12 **Q50. What are your recommendations for AEP-Ohio's proposal to charge an**
13 **RSR?**

14 A50. I recommend that the Commission find that the proposed RSR is designed to
15 provide AEP-Ohio's generation business segment an unfair anti-competitive
16 subsidy flowing from a noncompetitive retail electric SSO to a competitive retail
17 electric service and that the RSR proposal improperly gives the generation
18 business segment an unfair and subsidized advantage of a guaranteed minimum
19 revenue. I recommend that the Commission reject the RSR proposal.

20 **Q51. Does this conclude your testimony?**

21 A51. Yes, for the time being. As a result of the procedural schedule in this phase of
22 the proceeding and the timing of discovery responses by AEP-Ohio, I reserve the

1 right to supplement my testimony based on any additional information I obtain
2 from AEP-Ohio's discovery responses.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Direct Testimony of J. Edward Hess on Behalf of Industrial Energy Users-Ohio* was served upon the following parties of record this 4th day of May, 2012, *via* electronic transmission, hand-delivery, or ordinary U.S. mail, postage prepaid.

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ATTORNEY EXAMINERS

Projected Generation Related Net Stranded Costs
Colombus and Southern Company
Low Gas + Base Environment

Stranded Cost Calculation Summary	
NPV of Cash Flow 2001 - 2015	\$37,541
NPV of Cash Flow 2016 - 2030	\$79,210
Total NPV Cash Flow	\$456,761
Base	\$374,329
Net Stranded Costs	\$82,432

Income Statement	Source	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000	3001	3002	3003	3004	3005	3006	3007	3008	3009	3010	3011	3012	3013	3014	3015	3016	3017	3018	3019	3020	3021	3022	3023	3024	3025	3026	3027	3028	3029	3030	3031	3032	3033	3034	3035	3036	3037	3038	3039	3040	3041	3042	3043	3044	3045	3046	3047	3048	3049	3050	3051	3052	3053	3054	3055	3056	3057	3058	3059	3060	3061	3062	3063	3064	3065	3066	3067	3068	3069	3070	3071	3072	3073	3074	3075	3076	3077	3078	3079	3080	3081	3082	3083	3084	3085	3086	3087	3088	3089	3090	3091	3092	3093	3094	3095	3096	3097	3098	3099	3100	3101	3102	3103	3104	3105	3106	3107	3108	3109	3110	3111	3112	3113	3114	3115	3116	3117	3118	3119	3120	3121	3122	3123	3124	3125	3126	3127	3128	3129	3130	3131	3132	3133	3134	3135	3136	3137	3138	3139	3140	3141	3142	3143	3144	3145	3146	3147	3148	3149	3150	3151	3152	3153	3154	3155	3156	3157	3158	3159	3160	3161	3162	3163	3164	3165	3166	3167	3168	3169	3170	3171	3172	3173	3174	3175	3176	3177	3178	3179	3180	3181	3182	3183	3184	3185	3186	3187	3188	3189	3190	3191	3192	3193	3194	3195	3196	3197	3198	3199	3200	3201	3202	3203	3204	3205	3206	3207	3208	3209	3210	3211	3212	3213	3214	3215	3216	3217	3218	3219	3220	3221	3222	3223	3224	3225	3226	3227	3228	3229	3230	3231	3232	3233	3234
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Stranded Cost Calculation Summary	
NPV of Cash Flow 2001 - 2015	\$966,821
NPV of Cash Flow 2016 - 2030	\$203,210
Total NPV Cash Flow	\$1,170,032
Base	\$1,309,382
Net Stranded Costs	\$139,350

Income Statement		2000	2001	2002	2003	2004	2005	2006	2008	2009	2010	2011	2012	2013	2014	2015	Present Value
Revenues																	10,476
1) Net GWH Generation	Input	49,624	49,812	49,001	49,190	49,637	50,083	49,162	49,315	44,538	42,830	40,919	40,651	40,398	40,122	39,860	
2) ACP Price	Input	\$23.52	\$23.76	\$24.01	\$24.26	\$25.53	\$26.79	\$27.58	\$28.39	\$29.22	\$30.08	\$31.81	\$32.69	\$33.60	\$34.53	\$35.48	
3) Total Revenues	Input	\$1,226,139	\$1,240,894	\$1,263,636	\$1,285,269	\$1,369,680	\$1,452,091	\$1,439,367	\$1,424,772	\$1,411,307	\$1,397,968	\$1,384,766	\$1,409,979	\$1,435,662	\$1,461,812	\$1,488,439	\$1,515,550
Expenses																	
4) Production Expense and fuel	Input	\$245,423	\$255,181	\$266,294	\$275,808	\$289,321	\$302,833	\$308,582	\$310,376	\$312,418	\$318,107	\$322,045	\$324,498	\$327,432	\$331,413	\$339,315	\$2,041,413
5) Fuel Expense	Input	\$646,928	\$615,424	\$598,183	\$582,149	\$576,324	\$561,119	\$563,076	\$575,142	\$567,317	\$559,598	\$551,984	\$548,661	\$552,629	\$556,419	\$568,827	\$4,174,786
6) Decommissioning/Orphaning	Input	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$34,860	\$35,731	\$24,401	\$25,011	\$0	\$0	\$0	\$0
7) SO2 allowance costs	Input	\$0	\$21,796	\$20,084	\$26,468	\$25,964	\$25,328	\$18,875	\$12,009	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8) AIG Expense	Input	\$39,279	\$34,870	\$101,464	\$102,737	\$103,708	\$106,907	\$108,684	\$108,114	\$109,264	\$110,205	\$111,307	\$112,420	\$113,544	\$114,680	\$115,828	\$114,873
9) Depreciation - Steam Gen	Calculated	\$30,996	\$37,166	\$105,150	\$106,772	\$112,668	\$114,897	\$119,423	\$122,458	\$128,007	\$128,629	\$131,222	\$134,201	\$137,254	\$140,383	\$143,580	\$780,750
10) Depreciation - Hydro	Calculated	\$2,959	\$2,965	\$2,965	\$2,965	\$2,965	\$2,965	\$2,965	\$2,965	\$2,965	\$2,965	\$2,965	\$2,965	\$2,965	\$2,965	\$2,965	\$2,965
11) Reliability - Hydro	Calculated	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
12) Reliability - Wind	Calculated	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
13) Total O&M and Scrubber	Calculated	\$174,147	\$178,820	\$184,538	\$192,851	\$203,396	\$210,103	\$213,103	\$216,103	\$219,103	\$222,103	\$225,103	\$228,103	\$231,103	\$234,103	\$237,103	\$660
13) Total O&M - Other	Calculated	\$154,741	\$168,082	\$174,737	\$182,851	\$194,517	\$196,737	\$180,556	\$173,649	\$170,363	\$166,894	\$163,426	\$160,000	\$156,620	\$153,290	\$149,987	\$288,576
14) Total Expenses	Calculated	\$1,714,161	\$1,768,082	\$1,834,737	\$1,822,810	\$1,824,517	\$1,860,737	\$1,802,556	\$1,775,849	\$1,760,353	\$1,746,864	\$1,733,984	\$1,721,172	\$1,725,144	\$1,725,144	\$1,725,144	\$3,745,404
15) Operating Income	Calculated	\$73,378	\$80,832	\$131,159	\$162,449	\$152,449	\$256,354	\$257,810	\$250,923	\$250,923	\$201,368	\$180,772	\$203,960	\$233,880	\$238,672	\$243,296	\$247,747
16) Interest Expense	Calculated	\$38,150	\$39,992	\$40,994	\$43,749	\$44,549	\$43,312	\$42,689	\$41,730	\$39,483	\$37,211	\$35,601	\$33,913	\$32,631	\$31,262	\$29,868	\$28,450
17) Interest Before Taxes	Calculated	\$35,228	\$40,840	\$90,165	\$118,700	\$107,901	\$222,042	\$215,121	\$206,193	\$111,430	\$164,157	\$145,171	\$169,073	\$201,259	\$207,410	\$219,297	\$1,115,679
18) Schedule M	Input	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$25,870
19) Income tax expense	Calculated	\$39,894	\$44,306	\$30,885	\$121,367	\$173,880	\$228,508	\$218,897	\$212,669	\$114,896	\$167,623	\$148,637	\$173,439	\$204,724	\$210,876	\$222,763	\$1,141,349
20) Federal Income Tax	Calculated	\$19,914	\$22,156	\$15,443	\$60,688	\$89,938	\$118,256	\$116,459	\$113,285	\$58,962	\$87,968	\$90,287	\$107,347	\$123,084	\$126,972	\$130,385	\$683,947
21) Deferred FIT/ITC	Input	\$19,914	\$22,156	\$15,443	\$60,688	\$89,938	\$118,256	\$116,459	\$113,285	\$58,962	\$87,968	\$90,287	\$107,347	\$123,084	\$126,972	\$130,385	\$683,947
22) Total Income Taxes	Calculated	\$11,481	\$19,757	\$35,650	\$48,013	\$68,913	\$99,253	\$97,446	\$85,044	\$45,309	\$68,712	\$59,070	\$71,130	\$83,173	\$91,210	\$98,973	\$483,917
23) Net Income Before Preferred	Calculated	\$20,747	\$24,083	\$51,769	\$69,888	\$101,101	\$131,789	\$127,675	\$124,152	\$65,041	\$97,382	\$88,097	\$100,839	\$119,435	\$120,092	\$128,669	\$681,732
Cash Flow																	
24) Net Income Before Preferred	From above	\$20,747	\$24,083	\$51,769	\$69,888	\$101,101	\$131,789	\$127,675	\$124,152	\$65,041	\$97,382	\$88,097	\$100,839	\$119,435	\$120,092	\$128,669	\$681,732
25) Plus Interest Expense	From above	\$38,150	\$39,992	\$40,994	\$43,749	\$44,549	\$43,312	\$42,689	\$41,730	\$39,483	\$37,211	\$35,601	\$33,913	\$31,262	\$29,868	\$28,450	\$681,732
26) Plus Deferred Taxes	From above	\$19,914	\$22,156	\$15,443	\$60,688	\$89,938	\$118,256	\$116,459	\$113,285	\$58,962	\$87,968	\$90,287	\$107,347	\$123,084	\$126,972	\$130,385	\$294,949
27) Plus Revenues	From above	\$353,277	\$357,161	\$353,150	\$357,161	\$357,161	\$357,161	\$357,161	\$357,161	\$357,161	\$357,161	\$357,161	\$357,161	\$357,161	\$357,161	\$357,161	\$357,161
28) Less Construction	From above	\$97,235	\$102,566	\$102,566	\$102,566	\$102,566	\$102,566	\$102,566	\$102,566	\$102,566	\$102,566	\$102,566	\$102,566	\$102,566	\$102,566	\$102,566	\$102,566
29) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
30) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
31) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
32) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
33) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
34) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
35) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
36) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
37) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
38) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
39) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
40) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
41) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
42) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
43) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
44) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
45) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
46) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
47) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
48) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
49) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
50) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
51) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
52) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
53) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
54) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
55) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
56) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
57) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
58) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
59) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
60) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
61) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
62) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
63) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
64) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
65) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
66) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
67) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
68) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
69) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
70) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
71) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
72) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
73) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
74) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
75) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
76) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
77) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
78) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
79) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
80) Less Non (SNCR)	From above	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0					

\$203,210

**Projected Generation Related Net Stranded Costs
Columbus and Southern Company
High Gas + Alternative Environment**

Projected Generation Related Net Standard Costs		Standard Cost Calculation Summary												Present Value @ 10.75%																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					
		NPV 4 Cash Flow 2001 - 2016	NPV 4 Cash Flow 2016 - 2030	Total NPV Cash Flow	Base	NPV 4 Cash Flow 2001 - 2016	NPV 4 Cash Flow 2016 - 2030	Total NPV Cash Flow	Base	NPV 4 Cash Flow 2001 - 2016	NPV 4 Cash Flow 2016 - 2030	Total NPV Cash Flow	Base																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						
Net Standard Costs		\$400,516	\$27,115	\$427,631	\$374,929	\$470,698																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																													

Projected Generation Related Net Stranded Costs
Ohio Power Company
High Gas + Alternative Environment

Stranded Cost Calculation Summary	
NPV of Cash Flow 2001 - 2015	\$954,672
NPV of Cash Flow 2016 - 2030	\$308,820
Total NPV Cash Flow	\$1,263,492
Base	\$1,309,382
Net Stranded Costs	\$45,889

Income Statement																	Present Value
Source	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	10,475
Revenues																	
1) Total GHM Generation	48,624	49,408	50,204	51,012	51,497	51,962	50,698	49,446	48,225	47,034	45,873	45,950	46,027	46,104	46,182	46,269	
2) AEP Price	\$29.52	\$24.64	\$25.81	\$27.04	\$28.64	\$30.23	\$30.83	\$31.44	\$32.06	\$32.70	\$33.34	\$34.34	\$35.36	\$36.41	\$37.49	\$38.60	
3) Total Revenues	\$1,228,139	\$1,308,845	\$1,486,517	\$1,590,490	\$1,694,463	\$1,663,511	\$1,633,124	\$1,603,293	\$1,574,006	\$1,545,255	\$1,593,268	\$1,642,773	\$1,693,816	\$1,748,445	\$1,800,709		
Expenses																	
4) Production Expense and fuel	\$245,453	\$255,965	\$266,628	\$278,360	\$292,075	\$305,790	\$319,693	\$334,206	\$349,390	\$365,263	\$381,657	\$399,555	\$418,072	\$437,448	\$457,722	\$478,836	
5) Fuel Expensing/Disamantling	\$443,626	\$522,064	\$600,945	\$690,543	\$795,752	\$910,961	\$966,725	\$966,496	\$964,276	\$962,064	\$959,860	\$960,940	\$959,188	\$960,610	\$961,206	\$961,860	
6) Decommissioning/Disamantling	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$34,860	\$35,731	\$24,401	\$25,011	\$0	\$0	\$0	\$0	
7) SO2 allowance costs	\$22,763	\$31,071	\$39,468	\$39,065	\$39,065	\$39,065	\$39,065	\$39,065	\$39,065	\$39,065	\$39,065	\$39,065	\$39,065	\$39,065	\$39,065	\$39,065	
8) AAG Expense	\$33,379	\$39,670	\$41,464	\$102,737	\$103,708	\$104,803	\$105,907	\$106,827	\$108,064	\$109,114	\$110,205	\$111,307	\$112,420	\$113,544	\$114,680	\$115,828	
9) Depreciation - Steam Gen	\$60,686	\$65,150	\$69,772	\$74,666	\$79,800	\$85,186	\$90,820	\$96,706	\$102,842	\$109,226	\$115,964	\$123,064	\$129,546	\$136,510	\$143,964	\$150,928	
10) Depreciation - Hydro	\$2,858	\$2,858	\$2,858	\$2,858	\$2,858	\$2,858	\$2,858	\$2,858	\$2,858	\$2,858	\$2,858	\$2,858	\$2,858	\$2,858	\$2,858	\$2,858	
11) Retirements	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
12) Taxes, NOx and Scrubber	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
13) Taxes Other - Other	\$78,147	\$78,629	\$79,111	\$79,593	\$80,075	\$80,557	\$81,039	\$81,521	\$82,003	\$82,485	\$82,967	\$83,449	\$83,931	\$84,413	\$84,895	\$85,377	
14) Total Expenses	\$1,154,761	\$1,174,474	\$1,151,120	\$1,145,760	\$1,179,516	\$1,212,796	\$1,247,453	\$1,282,110	\$1,316,775	\$1,351,440	\$1,386,105	\$1,420,770	\$1,455,435	\$1,490,100	\$1,524,765	\$1,559,430	
15) Operating Income	\$73,378	\$134,371	\$243,735	\$339,751	\$410,971	\$491,665	\$435,828	\$365,073	\$242,118	\$250,111	\$188,997	\$217,613	\$255,891	\$275,572	\$282,971	\$268,232	
16) Depreciation	\$38,150	\$39,992	\$43,780	\$44,549	\$44,749	\$44,312	\$43,372	\$42,372	\$41,372	\$40,372	\$39,372	\$38,372	\$37,372	\$36,372	\$35,372	\$34,372	
17) Income Before Taxes	\$35,228	\$94,379	\$199,955	\$295,202	\$367,223	\$447,353	\$392,456	\$322,701	\$200,746	\$209,739	\$149,625	\$179,241	\$226,519	\$239,200	\$247,599	\$233,860	
18) Schedule M	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	\$3,468	
19) Taxable Income	\$38,694	\$37,845	\$20,421	\$298,668	\$367,688	\$441,819	\$355,867	\$322,745	\$189,943	\$189,943	\$122,705	\$149,908	\$193,935	\$213,389	\$235,857	\$258,377	
20) Current Fed/State Tax	\$15,684	\$39,686	\$82,508	\$121,140	\$150,351	\$179,202	\$159,297	\$138,228	\$75,925	\$76,940	\$49,769	\$60,893	\$78,660	\$98,551	\$124,520	\$149,277	
21) Total Deferred F/T/M/C	(\$1,213)	(\$1,213)	(\$1,213)	(\$1,213)	(\$1,213)	(\$1,213)	(\$1,213)	(\$1,213)	(\$1,213)	(\$1,213)	(\$1,213)	(\$1,213)	(\$1,213)	(\$1,213)	(\$1,213)	(\$1,213)	
22) Total Income Taxes	\$14,471	\$38,473	\$81,284	\$119,927	\$149,138	\$177,989	\$158,064	\$135,014	\$74,612	\$75,728	\$48,556	\$59,589	\$77,447	\$93,407	\$109,164	\$130,651	
23) Net Income Before Preferred	\$20,747	\$55,908	\$118,661	\$175,275	\$218,084	\$220,364	\$231,195	\$197,388	\$108,867	\$110,901	\$70,683	\$98,652	\$113,022	\$124,586	\$136,112	\$158,037	
Cash Flow																	
24) Net Income Before Preferred	\$20,747	\$55,908	\$118,661	\$175,275	\$218,084	\$220,364	\$231,195	\$197,388	\$108,867	\$110,901	\$70,683	\$98,652	\$113,022	\$124,586	\$136,112	\$158,037	
25) Plus Interest Expense	\$39,150	\$39,992	\$43,780	\$44,549	\$43,749	\$43,312	\$46,549	\$37,272	\$58,639	\$63,884	\$69,758	\$71,171	\$68,422	\$65,649	\$62,852	\$60,000	
26) Plus Depreciation	\$83,957	\$109,105	\$112,727	\$115,821	\$119,053	\$127,027	\$139,275	\$139,275	\$150,944	\$162,681	\$175,320	\$183,044	\$186,022	\$189,075	\$192,204	\$195,412	
27) Plus Returnments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$58,750	\$0	\$8,413	\$0	\$0	\$0	\$0	\$0	
28) Plus Construction	\$97,735	\$102,568	\$80,117	\$57,183	\$92,019	\$94,319	\$96,677	\$81,691	\$93,939	\$82,352	\$84,411	\$86,521	\$88,684	\$90,901	\$93,174	\$95,503	
29) Less NOx (SO2) and Scrubber	\$0	\$162,512	\$124,435	\$10,173	\$10,862	\$4,639	\$0	\$280,268	\$287,272	\$294,454	\$301,615	\$0	\$0	\$0	\$0	\$0	
30) Less NOx (SO2) and Scrubber	\$0	\$162,512	\$124,435	\$10,173	\$10,862	\$4,639	\$0	\$280,268	\$287,272	\$294,454	\$301,615	\$0	\$0	\$0	\$0	\$0	
31) Total NOx (SO2) and Scrubber	\$0	\$162,512	\$124,435	\$10,173	\$10,862	\$4,639	\$0	\$280,268	\$287,272	\$294,454	\$301,615	\$0	\$0	\$0	\$0	\$0	
32) Total	\$209,936	\$270,277	\$294,761	\$293,962	\$275,367	\$252,556	\$333,459	\$438,738	\$477,776	\$499,973	\$533,263	\$523,333	\$527,563	\$527,166	\$529,602	\$531,765	
Capitalization																	
33) Debt																	
34) Equity																	
Investment																	
35) Gross Plant in Service - Steam Gen	\$2,725,286	\$2,990,364	\$3,194,915	\$3,262,272	\$3,385,162	\$3,464,110	\$3,634,217	\$4,199,374	\$4,506,935	\$4,985,641	\$5,253,454	\$5,339,975	\$5,428,659	\$5,510,560	\$5,612,733	\$5,708,236	
36) - Hydro	\$109,453	\$109,453	\$109,453	\$109,453	\$109,453	\$109,453	\$109,453	\$109,453	\$109,453	\$109,453	\$109,453	\$109,453	\$109,453	\$109,453	\$109,453	\$109,453	
37) Accum. Depreciation - Steam Gen	\$1,597,274	\$1,597,274	\$1,597,274	\$1,597,274	\$1,597,274	\$1,597,274	\$1,597,274	\$1,597,274	\$1,597,274	\$1,597,274	\$1,597,274	\$1,597,274	\$1,597,274	\$1,597,274	\$1,597,274	\$1,597,274	
38) - Hydro	\$44,176	\$44,176	\$44,176	\$44,176	\$44,176	\$44,176	\$44,176	\$44,176	\$44,176	\$44,176	\$44,176	\$44,176	\$44,176	\$44,176	\$44,176	\$44,176	
39) Net Plant	\$1,203,269	\$1,368,245	\$1,464,692	\$1,416,321	\$1,405,580	\$1,358,655	\$1,281,566	\$1,052,447	\$1,052,447	\$1,052,447	\$1,052,447	\$1,052,447	\$1,052,447	\$1,052,447	\$1,052,447	\$1,052,447	
40) Plus Fuel Inventory	\$92,929	\$92,929	\$92,929	\$92,929	\$92,929	\$92,929	\$92,929	\$92,929	\$92,929	\$92,929	\$92,929	\$92,929	\$92,929	\$92,929	\$92,929	\$92,929	
41) Plus M&S & Prepayments	\$38,000	\$38,000	\$38,000	\$38,000	\$38,000	\$38,000	\$38,000	\$38,000	\$38,000	\$38,000	\$38,000	\$38,000	\$38,000	\$38,000	\$38,000	\$38,000	
42) Less Accum DFT	\$24,836	\$24,836	\$24,836	\$24,836	\$24,836	\$24,836	\$24,836	\$24,836	\$24,836	\$24,836	\$24,836	\$24,836	\$24,836	\$24,836	\$24,836	\$24,836	
43) Net Investment	\$1,309,392	\$1,475,551	\$1,573,211	\$1,529,053	\$1,517,525	\$1,498,644	\$1,742,937	\$1,960,832	\$2,116,684	\$2,332,042	\$2,555,748	\$2,430,439	\$2,334,313	\$2,237,353	\$2,139,535	\$2,040,839	
44) Net Investment	\$1,309,392																
15) NPV of Cash Flow 2016 - 2030																	\$308,820

EXHIBIT NO. _____

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

PUCO

In the Matter of the Application of Columbus
Southern Power Company for Approval of
Electric Transition Plan and Application for
Receipt of Transition Revenues

Case No. 99-1729-EL-ETP

In the Matter of the Application of Ohio
Power Company for Approval of
Electric Transition Plan and Application for
Receipt of Transition Revenues

Case No. 99-1730-EL-ETP

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

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Filed May 23, 2000

INDEX TO DIRECT TESTIMONY OF
RICHARD E. MUNCZINSKI
PUCO CASE NOS. 99-1729-EL-ETP and
99-1730-EL-ETP

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2. Purpose of Testimony	2
3. Background of Negotiations	2
4. The Stipulation is Just and Reasonable and Does Not Violate Regulatory Principles or Precedents	5

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
RICHARD E. MUNCZINSKI
ON BEHALF OF
COLUMBUS SOUTHERN POWER COMPANY
CASE NO. 99-1729-EL-ETP
AND
OHIO POWER COMPANY
CASE NO. 99-1730-EL-ETP

I. Qualifications

Q. Please state your name and business address.

A. My name is Richard E. Munczinski and my business address is 1 Riverside Plaza,
Columbus, Ohio 43215-2373.

Q. By whom are you employed and what is your position?

A. I am employed by the American Electric Power Service Corporation (AEPSC), the
service corporation subsidiary of American Electric Power Company, Inc. (AEP), as
Senior Vice President-Corporate Planning and Budgeting.

Q. Please describe your educational background, professional qualifications and business
experience.

A. I received a Bachelors Degree in Electrical Engineering from Stevens Institute of
Technology in 1974, and a Masters Degree in Management Science from Stevens
Institute of Technology in 1979. In addition, I have attended the AEP-Darden
(University of Virginia) executive training program. After working as an electrical
engineer for several engineering consulting firms for the period of 1974 through 1977, I
joined the AEPSC in 1978 as an assistant Project Control Engineer and was subsequently
promoted to Project Control Engineer in 1979 and Senior Project Control Engineer in
1981. In 1982, I joined the Controller's Department (now Corporate Planning and
Budgeting Department). I was promoted to manager of Financial Planning and
Forecasting in 1985 and to Assistant Controller in 1990. In 1992, I was named Director

1 of the Rate Division of the Rates Department (subsequently renamed the Regulatory
2 Services Division and the Energy Pricing and Regulatory Services Department,
3 respectively). In November 1996, I was promoted to Vice President-Regulatory Services.
4 I assumed my current position in January, 1998.

5 Q. Have you appeared as a witness before any regulatory commission?

6 A. Yes, I previously have sponsored testimony before the Public Utilities Commission of
7 Ohio, the Indiana Utility Regulatory Commission, the Virginia State Corporation
8 Commission, the Public Service Commission of West Virginia, the Kentucky Public
9 Utilities Commission, the Michigan Public Service Commission, the Public Utility
10 Commission of Texas, the Louisiana Public Service Commission, the Arkansas Public
11 Service Commission, the Corporate Commission of the State of Oklahoma, and the
12 Federal Energy Regulatory Commission (FERC).

13
14 **II. Purpose of Testimony**

15 Q. What is the purpose of your testimony?

16 A. The purpose of my testimony is to support the Stipulation and Recommendation (the
17 Stipulation) which was filed in these dockets on May 8, 2000 and explain why I think the
18 Commission should adopt it in its entirety.

19
20 **III. Background of Negotiations**

21 Q. Were you involved in the negotiations which resulted in this Stipulation being filed?

22 A. Yes, I was part of the Companies' core group of negotiators. In that role I spent
23 considerable time meeting in person and by telephone with intervenors who represent a
24 cross-section of interests in these dockets. I, along with others, was deeply involved in
25 discussions with consumer representatives such as the Office of Consumers' Counsel, the
26 Industrial Electric Users-Ohio and the Ohio Manufacturers' Association, and with

1 marketer representatives, such as Enron, Shell Energy, Columbia Energy Power
2 Marketing Corporation, Columbia Energy Services Corporation, Exelon Energy,
3 Strategic Energy and Mid-Atlantic Power Supply Association. I was also deeply
4 involved in discussions with the Commission's Staff which, it appeared to me,
5 participated in the process as representative for the overall public interest. The other
6 members of the Companies' negotiating team kept me constantly informed of the
7 negotiations which were ongoing with other intervenors.

8 Q. What was your impression of the negotiation process?

9 A. The Stipulation probably says it most succinctly when it states that the Stipulation "is the
10 product of lengthy, serious bargaining among knowledgeable and capable parties in a
11 cooperative process. . . ." Particularly in light of the time constraints that all parties faced
12 to digest a lengthy and complex new law and the Companies' comprehensive filing in
13 compliance with the new law and the Commission's newly-adopted filing requirements, I
14 was impressed by the intervenors' and Staff's familiarity with the details of the filing and
15 with the legal analysis which the negotiating parties apparently had conducted. Perhaps
16 above all, I was impressed with the cooperative nature of the negotiations. The
17 professional attitudes brought to the negotiating table allowed all the parties to express
18 their opinions and positions, and debate those opinions and positions, without any breach
19 of decorum. The Companies approached these negotiations believing that a settlement
20 would be essential if a competitive generation market is going to develop beginning in
21 2001. It appears that most of the other negotiating parties shared that view.

22 Q. Why do the Companies believe that achieving a settlement is essential to the
23 development of a competitive generation market?

24 A. The Companies always have been concerned that if this case were litigated there almost
25 surely would be appeals taken to the Ohio Supreme Court from a Commission order

1 which attempted to apply a new law to the many details which must be resolved before
2 competition can go forward. I am advised by counsel that it likely would be near the end
3 of 2001 or some time in 2002 before the Court would issue a ruling on such appeals. By
4 that time we would already have lost at least one year of the market development period
5 and if the Commission had to modify its order to comply with the Court's ruling, even
6 more time would be lost.

7 The Companies' view has been, and continues to be, that in light of our
8 customers' unfamiliarity with shopping for electricity, uncertainties regarding the factors
9 affecting shopping must be minimized in order to enable the rapid development of an
10 efficient market. If transition costs and/or shopping incentives are only interim in nature
11 and subject to a retroactive adjustment as the result of multiple appeals, that would create
12 a serious impediment to the development of a competitive market. In addition, appeals of
13 transmission-related issues challenging either the substance of the Commission's rulings
14 or the extent of the Commission's jurisdiction over transmission issues also would be a
15 serious impediment to the development of a competitive market. Therefore, it is
16 important that we avoid such appeals if we can.

17 Q. Despite the Companies' concern regarding the adverse effect that a litigated proceeding,
18 with its potential for a subsequent appeal, would have on the development of a
19 competitive generation market, isn't that exactly the situation in which the Companies
20 and the intervenors now find themselves?

21 A. Yes, unfortunately that is true. However, Commission acceptance of the Stipulation will
22 serve to minimize the potential for uncertainty. For the reasons discussed in the
23 remainder of my testimony the Commission should find that the Stipulation represents a
24 just and reasonable resolution of all the issues in these proceedings and that it does not
25 violate any regulatory principle or precedent. The opposition to the Stipulation by Shell

1 Energy must be viewed in the context of the support for the Stipulation by a broad group
2 of parties who represent virtually every conceivable interest. Indeed, except for Shell
3 (and one other marketer intervenor who chose not to sign the Stipulation but has
4 indicated that it does not oppose the Stipulation), all other marketers who intervened
5 support the Stipulation.
6

7 **IV. The Stipulation is Just and Reasonable and Does Not Violate Regulatory Principles**
8 **or Precedents**
9

10 Q. Why do you believe that the Stipulation represents a just and reasonable resolution of all
11 the issues in this proceeding?

12 A. I start from the premise that most cases which come before the Commission require the
13 resolution of disputed facts in a setting where the law is substantially settled. Electric
14 transition plan cases, however, present a host of undetermined legal issues inherent in the
15 implementation of Am. Sub. S. B. No. 3. Significant among those questions are the
16 following questions which have been raised either through motions filed by intervenors,
17 the intervenors' preliminary objections and/or the Staff's Report of Exceptions and
18 Recommendations.

19 1. How are transition costs to be determined?

20 2. If a utility were found to have what some people refer to as stranded generation
21 benefits, should those benefits be netted against stranded regulatory assets and, of
22 course, the related question of whether the Commission has any authority to
23 perform such a netting calculation?

24 3. Is 20 percent shopping by class a statutory requirement and, if it is, is the
25 shopping incentive the single factor the Commission must rely upon to achieve
26 that level of shopping?

- 1 4. Does the 5 percent reduction applicable to residential customers' generation
2 component also get applied to the regulatory asset transition charge, or would that
3 unlawfully deprive the utility of full regulatory asset recovery?
- 4 5. Must the state provide a means to recover the costs imposed on the utilities by
5 Am. Sub. S. B. No. 3 and the Commission's rules, such as the cost for consumer
6 education, the implementation costs and the costs associated with this mandated
7 filing?

8 This list of legal issues just scratches the surface. I mention the unsettled legal issues
9 because the parties supporting the Stipulation have compromised with one another on
10 these issues in an effort to achieve an agreement. Further, compromise on the parties'
11 litigation positions on these and other legal issues made it possible for the parties to
12 compromise on the significant factual differences which existed among them.

13 Q. What sort of factual differences do you have in mind?

14 A. The most significant factual dispute centered on the parties' stranded cost/stranded
15 benefit perceptions. The Companies believed that they were exposed to stranded costs
16 while intervenors who intended to testify on the issue apparently were prepared to
17 support the existence of stranded benefits.

18 Another example of factual disagreement centered on the shopping incentive.
19 The Companies did not believe that any shopping incentive was warranted beyond the
20 shopping credit it proposed. Certain intervenors expressed their views that additional
21 shopping incentives were needed.

22 There were many other factual disputes concerning a wide assortment of issues
23 regarding, for instance, corporate separation, code of conduct and circumstances
24 applicable to customers switching from, and then returning to, default service.

25 Q. Besides the legal and factual differences you have discussed was there any additional
26 factor bearing on the unsettled situation you have described?

1 A. Yes. It must be remembered that the Staff filed its Report of Exceptions and
2 Recommendations. The Staff reached many conclusions, some of which supported the
3 Companies' filing and others of which either questioned or disagreed with aspects of the
4 Companies' filing. Perhaps most important, the Staff reserved judgment on certain
5 issues, most notably the stranded generation cost analysis. The presence and absence of
6 Staff positions tended to add to the uncertainty of how the Commission would resolve all
7 these conflicts.

8 Q. How does this uncertainty affect your opinion that the Stipulation is just and reasonable?

9 A. Reaching a settlement eliminates uncertainty. Essentially the parties forego their rights to
10 pursue their litigation positions and in exchange accept the certainty that their
11 compromise establishes. The fact that the Companies and representatives of all customer
12 classes, community-based organizations and of all but one of the marketer intervenors
13 support (or in one instance does not oppose), strongly supports the Stipulation's
14 reasonableness and justness. Further, from the perspective of the customers and
15 marketers the Stipulation provides benefits which simply would not be attainable through
16 litigation.

17 Q. What are some of the benefits which would not have been attainable if the parties to the
18 Stipulation had chosen to litigate?

19 A. Significant benefits not attainable from litigation were provided in the context of
20 transmission-related issues. For instance, the Companies have committed to place
21 employees in the AEP System Control Center to assist transmission users with the
22 processes of reservations, scheduling and tagging. Further we have agreed to provide a
23 mechanism to account for partial MWHs when the load served by imports across AEP
24 interfaces does not result in whole MWHs. The final point to mention in the transmission
25 area is that the Companies will make available a fund of up to \$10 million for costs
26 associated with certain transmission charges imposed by PJM or MISO. The details of

1 the fund are spelled out in the Stipulation. This fund and the other transmission-related
2 benefits I have touched on will serve to support the development of a competitive market
3 for generation.

4 Another notable example of benefits which are not attainable through litigation is
5 the distribution rate freeze through the end of 2007 for Ohio Power Company and
6 through the end of 2008 for Columbus Southern Power Company. My counsel has
7 advised me that the Commission could not impose such a freeze on the Companies'
8 distribution rates. By entering into the Stipulation the customers have negotiated
9 additional rate certainty beyond the five-year rate freeze established by the Legislature.
10 The Companies, on the other hand, face the exposure to the risk of cost increases over
11 this seven-to eight-year period. From the customer's perspective this rate freeze is a
12 significant benefit.

13 Another key benefit that we do not believe could have resulted from litigation is
14 our agreement to apply the unused portion of the Columbus Southern Power Company's
15 shopping incentive to reduce regulatory asset recovery. In other words, the shopping
16 incentive is really money set aside for our customers regardless of whether they shop.
17 Moreover, Columbus Southern Power Company's residential customers' shopping
18 incentive level exceeds their level of transition costs. We believe that the Commission
19 could not have imposed such a result without the Company's agreement. Our residential
20 customers further benefit from our agreement not to seek to reduce during the market
21 development period the five percent reduction on the generation component of their
22 unbundled rates.

23 Finally, we agreed that the first twenty percent of Ohio Power Company's
24 residential customer load that is on the standard service offer as of December 31, 2005
25 which switches to a certified supplier will not be charged the Regulatory Transition
26 Charge during 2006 and 2007.

1 Q. Are there other concessions which the Companies made in the Stipulation?

2 A. Yes there are. For instance, the Companies dropped their claims for recovery of stranded
3 generation costs. The customers no longer face the potential of such costs being part of
4 the Companies' transition costs.

5 Also, the Companies have agreed to absorb the first \$40 million of actual
6 consumer education, customer choice implementation and transition filing costs they
7 incur. The remainder of those costs and a carrying charge thereon will be deferred for
8 recovery in future rates, subject to Commission review. The Companies had asked that
9 the full amount of these costs be recovered as part of the Regulatory Transition Charge.
10 The agreed upon treatment provides another significant benefit to our customers.

11 To further encourage the development of a competitive market for generation the
12 Companies also agreed to an additional shopping incentive for Columbus Southern
13 Power Company's residential customers; a revision to the rate design and equalization of
14 bill impacts within the Commercial class of customers; a significant relaxation of
15 (particularly for residential customers) guidelines the Companies had proposed to deal
16 with the problem of customers returning to standard offer service during high cost
17 periods and then switching again during low cost periods; a credit payable to marketers
18 who provide consolidated bills in an amount we believe to be greater than costs avoided
19 by the Companies; a relaxation of the notice which Commercial and Industrial customers
20 must provide of their intent to switch; restrictions on the distribution affiliate companies
21 providing competitive non-electric products or services to retail customers; and, of
22 course, we agreed to reduce the Companies' proposed Regulatory Transition Charge and
23 the duration of that charge.

24 Q. Do you believe that the Stipulation will support the development of a competitive market
25 for generation within the Companies' service areas?

1 A. Yes I do. Many of the features in the Stipulation which I have described in this testimony
2 were designed to support competition. The fact that all but one of the many marketer
3 intervenors have accepted the Stipulation strongly suggests that this Stipulation is putting
4 all the parties on the right track. The Stipulation, however, cannot guarantee that a
5 competitive market will materialize. Customer education is a very important component.
6 Related to customer education is the task facing marketers to adequately explain their
7 proposals to customers and help customers feel comfortable with their new shopping
8 opportunities. I believe, though, that this Stipulation provides a reasonable approach for
9 achieving a competitive market for generation. Consequently, in my opinion, the
10 Stipulation provides a just and reasonable resolution of the issues raised in these
11 proceedings. In addition, the Stipulation does not violate any regulatory principle or
12 precedent of which I am aware.

13 Q. Does this conclude your testimony?

14 A. Yes.

File
Fujitsu

EXHIBIT JEH-3

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JUN 20 2000 CONT.

Concluded

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO
PUCO

In the Matter of the :
Application of Columbus :
Southern Power Company for :
Approval of an Electric : Case No. 99-1729-EL-ETP
Transition Plan and :
Application for Receipt of :
Transition Revenues. :

In the Matter of the :
Application of Ohio Power :
Company for Approval of an :
Electric Transition Plan : Case No. 99-1730-EL-ETP
and Application for Receipt :
of Transition Revenues. :

Transcript of testimony taken before Gretchen L.
Petrucchi and Steven J. Deerwester, Hearing Examiners,
Public Utilities Commission of Ohio, commencing at 10:00
a.m., on Wednesday, June 7, 2000, 2000 at 180 East Broad
Street, Room 11-B/C, Columbus, Ohio.

VOLUME III

ARMSTRONG & OKEY, INC.
185 South Fifth Street, Suite 101
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ARMSTRONG & OKEY, INC., Columbus, Ohio

1 APPEARANCES:

2 Mr. Marvin I. Resnik
3 American Electric Power Service Corporation
4 One Riverside Plaza
5 Columbus, Ohio 43215

6 Porter, Wright, Morris & Arthur, L.L.P.
7 By Mr. Daniel R. Conway
8 and Ms. Mary Kay Ryan Fenlon
9 41 South High Street
10 Columbus, Ohio 43215-6194

11 On behalf of American Electric Power Service
12 Corporation.

13 Betty D. Montgomery, Attorney General
14 State of Ohio
15 Duane W. Luckey, Chief
16 Public Utilities Section
17 By Mr. Thomas W. McNamee
18 and Mr. Stephen Reilly
19 Assistant Attorneys General
20 180 East Broad Street, 7th Floor
21 Columbus, Ohio 43215-3793

22 On behalf of the Public Utilities Commission of
23 Ohio.

24 McNeese, Wallace & Nurick
25 By Mr. Samuel C. Randazzo
and Ms. Gretchen J. Hummel
and Ms. Kimberly J. Wile
Fifth Third Center, Suite 1700
21 East State Street
Columbus, Ohio 43215

On behalf of the Industrial Energy Users-Ohio.

1 APPEARANCES (continued):

2 Robert S. Tongren
3 Ohio Consumers' Counsel
4 By Ms. Colleen L. Mooney
5 and Mr. Terry Etter
6 and Ms. Ann M. Hotz
7 and Mr. Dirken D. Winkler
8 Assistant Consumers' Counsel
9 Ten West Broad Street, 18th Floor
10 Columbus, Ohio 43215

11 On behalf of the Residential Consumers of
12 American Electric Power and Columbus Southern
13 Power.

14 Vorys, Sater, Seymour & Pease, L.L.P.
15 By Mr. Joseph C. Blasko
16 for Mr. Howard M. Petricoff
17 52 East Gay Street
18 Columbus, Ohio 43216-1008

19 On behalf of Ohio Marketers' Coalition, Enron
20 Energy Services, WPS Energy Services, Inc.,
21 NewEnergy Midwest, L.L.C. and Dynegy, Inc.

22 Vorys, Sater, Seymour & Pease, L.L.P.
23 By Mr. Sheldon A. Taft
24 and Mr. Joseph c. Blasko
25 52 East Gay Street
Columbus, Ohio 43216-1008

On behalf of the Ohio Manufacturers'
Association.

Sutherland, Asbill & Brennan, L.L.P.
By Mr. Keith R. McCrea
and Mr. Daniel Oginsky
1275 Pennsylvania Avenue, NW
Washington, D.C. 20004-2415

On behalf of Shell Energy Services Co., L.L.C.

Cassidy, Myers, Cogan, Voegelin & Tennant, L.C.
By Mr. Thomas M. Myers
126 East Main Street
St. Clairsville, Ohio 43950

On behalf of the UMWA.

1 Wednesday Morning Session,

2 June 7, 2000.

3 - - -

4 EXAMINER PETRUCCI: Let's go on the record.

5 The Public Utilities Commission of Ohio scheduled
6 at this time and place case numbers 99-1729-EL-ETP and
7 99-1730-EL-ETP, being In the Matter of the Applications
8 of Columbus Southern Power Company and Ohio Power
9 Company for Approval of Electric Transition Plans and
10 Receipt of Transition Revenues.

11 This is Part III of the hearing. I'm Gretchen
12 Petrucci, one of the examiners assigned to conduct the
13 hearing. For purposes of the record, I'd like to go
14 through the appearances.

15 On behalf of the Company.

16 MR. RESNIK: Thank you, your Honor. Appearing
17 on behalf of the Companies, my name is Marvin I. Resnik.
18 I'm with American Electric Power Service Corporation,
19 and my address is One Riverside Plaza, Columbus, Ohio,
20 43215.

21 Daniel R. Conway and Mary Ryan Fenlon of the
22 law firm of Porter, Wright, Morris & Arthur, 41 South
23 High Street, Columbus, Ohio 43215.

24 EXAMINER PETRUCCI: On behalf of the Staff.

25 MR. McNAMEE: On behalf of the Staff of the

ARMSTRONG & OKEY, INC., Columbus, Ohio

1 Public Utilities Commission of Ohio, Betty Montgomery,
2 Attorney General of the State of Ohio, Duane Luckey,
3 Chief, Public Utilities Section. I am Thomas W.
4 McNamee, and assisting me is Stephen A. Reilly,
5 Assistant Attorneys General. The address is 180 East
6 Broad Street, Columbus, Ohio.

7 EXAMINER PETRUCCI: On behalf of Shell Energy.

8 MR. MCCREA: Thank you, Your Honor. On behalf
9 of Shell Energy, Keith R. McCrea of the law firm
10 Sutherland, Asbill & Brennan, 1275 Pennsylvania Avenue,
11 NW, Washington, D.C. 20004.

12 Also appearing with me is Daniel Oginsky of the
13 same firm and address.

14 EXAMINER PETRUCCI: On behalf of the United
15 Mine Workers.

16 MR. MYERS: On behalf of the United Mine
17 Workers of America, my name is Thomas Myers, UMWA, 56000
18 Dilles Bottom, Shadyside, Ohio 43947.

19 EXAMINER PETRUCCI: On behalf of the Industrial
20 Energy Users.

21 MS. HUMMEL: Thank you, Your Honor. On behalf
22 of the Industrial Energy Users-Ohio, Samuel C. Randazzo,
23 Gretchen J. Hummel, Kimberly J. Wile, of McNees, Wallace
24 & Nurick, 21 East State Street, Columbus, Ohio 43215.

25 EXAMINER PETRUCCI: And on behalf of OCC.

ARMSTRONG & OKEY, INC., Columbus, Ohio

1 MS. MOONEY: Yes, your Honor, on behalf of the
2 Ohio Consumers' Counsel, Robert S. Tongren, Ohio
3 Consumers' Counsel, I'm Colleen L. Mooney, and also on
4 the case are Ann Hotz and Terry Etter. We are at Ten
5 West Broad Street, Columbus, Ohio 43215. Thanks.

6 EXAMINER PETRUCCI: As I indicated, this is
7 Part III of the hearing in the transition plan cases.

8 MR. BLASKO: Your Honor, if I may, if I could
9 make an appearance on behalf of my clients as well.

10 EXAMINER PETRUCCI: Please. I'm sorry.

11 MR. BLASKO: On behalf of the Ohio
12 Manufacturers' Association, Sheldon A. Taft, Joseph C.
13 Blasko, Vorys, Sater, Seymour & Pease, 52 East Gay
14 Street, Columbus, Ohio 43215.

15 Also on behalf of Howard Petricoff, Joseph C.
16 Blasko, Vorys, Sater, Seymour & Pease, on behalf of
17 Enron Energy Services, Dynegy, Inc., WPS and NewEnergy
18 Venture Services.

19 EXAMINER PETRUCCI: Counsel, I don't know who
20 you are.

21 MR. BLASKO: My name is Joseph C. Blasko. I
22 apologize.

23 EXAMINER PETRUCCI: All righty. Anybody else
24 that I have overlooked?

25 Okay. As I indicated, this is Part III of the

1 hearing process in the transition plan cases, and for
2 purposes of today we are going to be dealing with the
3 reasonableness of the proposed stipulation.

4 Are there any preliminary matters before we get
5 started with that?

6 MR. RESNIK: There are just a few, your Honor.
7 Some of it is marking of exhibits and putting them into
8 the record. There's also a preliminary matter
9 concerning a request from the United Mine Workers
10 intervenors concerning the appearance of certain
11 witnesses, and there's, once again, a flurry of
12 correspondence back and forth.

13 I think where we -- and Mr. Myers will correct
14 me if I'm wrong, obviously. Mr. Munczinski and
15 Mr. Forrester, who were on that list, they're going to
16 be here, and parties are free to cross-examine them, and
17 we will just deal with questions of relevance to the
18 extent that the Company decides to make objections in
19 that regard.

20 I believe Mr. Myers has indicated that he is no
21 longer requesting Mr. Heller to appear, and the decision
22 of whether he needs Mr. Nelson would be dependent upon
23 how the cross-examination concludes -- his
24 cross-examination of Mr. Munczinski and perhaps
25 Mr. Forrester would go. So sort of deferring a decision

1 on Mr. Nelson at this point.

2 EXAMINER PETRUCCI: Okay. Is that accurate,
3 Mr. Myers?

4 MR. MYERS: Yes, ma'am, it is.

5 EXAMINER PETRUCCI: All righty, then you can
6 defer.

7 MR. MCCREA: Another procedural matter.

8 EXAMINER PETRUCCI: Let's do one at a time.
9 We'll defer consideration of that issue and
10 concern.

11 Okay, the next one, Mr. McCrea.

12 MR. MCCREA: Yes, your Honor. I received a
13 letter yesterday that Mr. Conway sent on June 5th
14 regarding the sort of procedural schedule for this phase
15 of the hearings. In that letter it's indicated that AEP
16 would reserve the right to file rebuttal testimony, and
17 we would be opposed to the filing of rebuttal testimony
18 at this stage in the proceeding. In our view, the
19 Company has had already four rounds of testimony they've
20 submitted and they've had opportunity to make their case
21 both with respect to their filing and the stipulation.

22 So we don't see any basis at this late stage
23 for raising a rebuttal issue when it's really never been
24 on the agenda before.

25 EXAMINER PETRUCCI: I will let you know that,

1 at least at this point I'm not sure we have to quite
2 deal with that question because I'm not sure that the
3 Companies have actually proposed to introduce rebuttal
4 testimony. But it's noted on the record, and if we have
5 to deal with it, we will deal with that question, but
6 I'm not making any ruling at this point.

7 Next?

8 MR. RESNIK: I have some exhibits, your Honor,
9 that I would like to submit for the record.

10 EXAMINER PETRUCCI: Let's go off the record
11 very quickly.

12 MR. RESNIK: Okay.

13 (Discussion held off the record.)

14 EXAMINER PETRUCCI: Let's go back on the
15 record.

16 MR. RESNIK: Thank you, your Honor. We have
17 distributed to the bench, the reporter, and the parties
18 a two-page list of all of the testimony and proposed
19 Company exhibit numbers as well as a Joint Exhibit 1,
20 and rather than going through all of that, we would just
21 ask that the various exhibits that are identified on
22 this two-page list be so marked at this time.

23 EXAMINER PETRUCCI: They will be so marked,
24 and I'll just reflect that in accordance with the
25 hearing last Wednesday, we have previously marked and

1 admitted Companies' Exhibits 9D and 10.

2 MR. RESNIK: Thank you.

3 I would like to provide to the reporter and
4 copies for the bench and the parties Companies'
5 Exhibit 3, which is the affidavit of publication of
6 notice of the hearing, and I would note that we have --

7 EXAMINER PETRUCCI: The copy you distributed to
8 me is the original. I'll take a photocopy. You can
9 give the original to the court reporter.

10 MR. RESNIK: Okay. Thanks.

11 And I would note that we have with us in the
12 hearing room the actual newspaper proofs. If anyone
13 wants to review those, we'll have them here through the
14 course of the hearing. And I would also note, your
15 Honor, this has been marked as Companies' Exhibit 3. We
16 will have two more proofs of publication, one for each
17 of the public hearings that the Commission scheduled,
18 and I would propose that those would be marked as
19 Companies' Exhibit 3A and 3B, and those may be late
20 filed. Sometimes it takes time to get all of this
21 information back from the newspaper association -- or,
22 Ohio Newspaper Services that works with us on this.

23 EXAMINER PETRUCCI: We will mark the proofs of
24 the local hearings as Companies' Exhibits 3A and 3B and
25 we'll see if they come in later on.

1 MR. RESNIK: Thank you.

2 The next exhibit, and it appears at the very
3 bottom of the two-page list, is what has been marked as
4 Joint Exhibit 1, and I would note that it may be just
5 slightly different than what was filed on the --
6 originally filed because what I've done is stapled in
7 the additional signature pages that have been already
8 filed at the Commission.

9 EXAMINER DEERWESTER: But the language itself
10 has not changed?

11 MR. RESNIK: Haven't changed the language; I
12 want to assure everybody of that. I just thought it
13 would be convenient to have all the signature pages in
14 one place.

15 And I believe that takes care of our
16 preliminary submission of exhibits. What I would like
17 to do, and whether you want to rule on it at this time
18 or later, but for all of these exhibits that relate to
19 witnesses who will not be appearing to testify in this
20 phase of the hearing, I'd like to move for the admission
21 of those exhibits into the record.

22 EXAMINER PETRUCCI: Is there any objection?

23 (No response.)

24 MR. RESNIK: I can perhaps outline it.

25 EXAMINER PETRUCCI: Let's be very specific on

1 which ones we're talking about here.

2 MR. RESNIK: Okay. We're talking about
3 Exhibit 5, 6A and 6B and 6C, Exhibits 7A and 7B, 8A and
4 8B, Exhibit 11, Exhibit 13, 15A and 15B, 17A and B, 20,
5 21A and B, and 25.

6 EXAMINER PETRUCCI: Now, are there any
7 objections?

8 (No response.)

9 EXAMINER PETRUCCI: Hearing no objections,
10 those previously delineated exhibits will be admitted.

11 MR. RESNIK: Thank you.

12 (COMPANIES' EXHIBITS 5, 6A, 6B, 6C, 7A, 7B, 8A,
13 8B, 11, 13, 15A, 15B, 17A, 17B, 20, 21A, 21B
14 AND 25 RECEIVED INTO EVIDENCE.)

15 MR. RESNIK: And I suppose perhaps to be just
16 overly cautious about them, perhaps we should also --
17 well, we'll wait on Exhibits 1 and 2 because those may
18 in some respect be subject to cross-examination, so
19 we'll wait on those.

20 And that takes care of the preliminary matters
21 that we have, your Honor.

22 EXAMINER PETRUCCI: Okay. Were there any other
23 preliminary matters?

24 MR. MYERS: No, your Honor.

25 EXAMINER PETRUCCI: Okay. Why don't the

1 Companies call their first witness.

2 MR. RESNIK: Company calls Mr. Munczinski.

3 EXAMINER PETRUCCI: Please raise your right
4 hand.

5 (Witness sworn.)

6 EXAMINER PETRUCCI: Please be seated.

7 MR. RESNIK: Your Honor, I have had marked by
8 the reporter Companies' Exhibit 18, which is the direct
9 testimony of Mr. Munczinski.

10 EXAMINER PETRUCCI: I'm not sure if it's
11 already been marked, but we'll mark it again in case it
12 hasn't been.

13 MR. RESNIK: Thank you.

14 - - -

15 RICHARD E. MUNCZINSKI
16 called as a witness on behalf of CSP/OPCO, being first
17 duly sworn, was examined and testified as follows:

18 DIRECT EXAMINATION

19 By Mr. Resnik:

20 Q. Mr. Munczinski, do you have before you a copy
21 of what has been marked as Companies' Exhibit 18?

22 A. I do.

23 Q. Can you identify that exhibit for the record,
24 please?

25 A. The exhibit is my direct testimony on behalf of

1 Columbus Southern Power and Ohio Power Companies.

2 Q. And are there any corrections or changes that
3 need to be made to that testimony?

4 A. No.

5 Q. If I were to ask you the questions that appear
6 in Exhibit 18, would your answers be the same as
7 contained therein?

8 A. Yes, they would.

9 Q. Okay. And do you have before you a copy of
10 what has been marked as Joint Exhibit 1?

11 A. Yes, I do.

12 Q. Can you identify that exhibit for the record,
13 please?

14 A. That exhibit is the Stipulation and
15 Recommendation for both Columbus Southern Power and for
16 Ohio Power Company.

17 MR. RESNIK: Your Honor, I have no further
18 questions for the witness, and he is available for
19 cross-examination.

20 EXAMINER PETRUCCI: Could you read back the
21 last couple questions, please?

22 (Record read.)

23 EXAMINER PETRUCCI: Does Staff have any
24 questions?

25 MR. McNAMEE: No questions, your Honor.

1 EXAMINER PETRUCCI: Mr. McCrea?

2 MR. MCCREA: A few, your Honor, yes. Thank
3 you.

4 - - -

5 CROSS-EXAMINATION

6 By Mr. McCrea:

7 Q. Good morning, Mr. Munczinski, I'm Keith McCrea
8 for Shell Energy.

9 A. Good morning, sir.

10 Q. Looking at Page 9 of your testimony, Lines 2
11 and 3, you state that the Companies have dropped their
12 claims for stranded generation cost, and then if you
13 will look at the stipulation, Section IV, that section
14 addresses generation transition charges; does it not?

15 A. Yes, it does.

16 Q. And just so we're clear, these generation
17 transmission charges are separate and apart from the
18 regulatory transition charges; are they not?

19 A. Yes, they are.

20 Q. Now, Section IV states that neither of the two
21 companies will impose any lost revenue charges or
22 generation transition charges on any switching
23 customer. What I'm getting at here is Section IV
24 specifically refers to switching customers, and your
25 testimony says you're dropping the claims for stranded

1 generation costs. Is one of those two inaccurate?

2 A. No.

3 Q. Why is that?

4 A. Well, in my mind, they basically say the same
5 thing. The purpose, as I understand it, of the
6 generation transition charge was to collect above market
7 generation costs. The typical stranded costs. This
8 gets a little complicated because in our filing, even
9 though we had shown that we had stranded costs on a
10 typical 20-year revenue present-value calculation, we
11 were seeking the lost revenue charge, which is more tied
12 to that FERC formula that says if you are a customer
13 that leaves the utility, you pay me the difference
14 between the market rate and what your embedded
15 generation rate is.

16 So as part of the stipulation, let's go to the
17 stipulation first, Section IV, what we agreed to is not
18 to seek or to drop our seeking of the lost revenue
19 charge.

20 In my testimony, I say exactly that. As part
21 of the overall settlement and the agreement, the
22 Companies drop their claims for recovery of stranded
23 generation costs.

24 Q. Haven't the Companies contended in your filings
25 that your frozen generation rates contain generation

1 costs that otherwise would be uneconomic in a
2 competitive market?

3 A. Yes.

4 Q. So --

5 A. But --

6 Q. Continue.

7 A. In two forms. One, we have shown that over a
8 30-year period, given certain assumptions, that we would
9 have a stranded cost. What we were asking for was
10 purely the difference between a market rate and our
11 embedded generation costs.

12 Q. Right.

13 A. And there was no guarantee that the market
14 rate -- at any market rate, it was a test to be done in
15 that particular period. So, for instance, if the market
16 rate was higher than our generation rate, there would be
17 no claim and there would be no stranded costs.

18 Q. But the difference between the market rate and
19 the frozen generation rate is the GTC component,
20 correct?

21 A. In our filing it would have been the GTC
22 component.

23 Q. All right. And just to pin that down a bit, do
24 you happen to have a copy of Mr. Roush's workpapers at
25 all?

1 I can hand you the page I'm looking at if you
2 don't.

3 MR. RESNIK: Mr. Roush.

4 Q. Mr. Roush. I'm sorry.

5 A. I may or may not. I have what's attached to
6 the stipulation, and --

7 Q. This would be the, actually, his revisions that
8 were attached to Mr. Roush's supplemental testimony.

9 A. No, I do not have that.

10 MR. McCREA: If I may approach, I can hand it
11 to the witness?

12 EXAMINER PETRUCCI: Yes.

13 Q. What I'm going to hand you, Mr. Munczinski, is
14 for the Columbus Southern page, it comes from his
15 supplemental testimony which was revised slightly, and
16 the Ohio Power page comes from his original workpapers.

17 Now, looking at, for example, the Columbus
18 Southern page --

19 A. Yes, sir.

20 Q. -- which, for the record, is titled Workpapers
21 Part A, Page 1 of 45, Witness Roush, in looking at the
22 Residential line we see in the fifth column a market
23 generation -- or, a market based generation price,
24 correct?

25 A. Yes.

1 Q. And in the sixth column we see a listing called
2 the Adjusted Unbundled Generation Price, correct?

3 A. Correct.

4 Q. And that column refers to your frozen
5 generation rate; is that correct?

6 A. Well, it refers to the adjusted unbundled
7 generation price.

8 Q. And, for example, for the residential class,
9 the 3.69 figure would be their generation rate.

10 A. I can't answer that in light of I'm not the
11 person who prepared this, but I would guess at this
12 point that there was an effort here to make a
13 comparison, an apples-to-apples basis, between a market
14 based generation price and our unbundled generation
15 price.

16 Q. And then Column 7, the difference between the
17 market based and the adjusted unbundled generation
18 price, that represents the transition charge, correct?

19 A. That's my understanding.

20 Q. And then just looking at the Ohio -- well,
21 looking at the Ohio Power page, for example, it's your
22 understanding that the same calculus is done on that
23 page to come up with a transition charge for the
24 residential class?

25 A. Yes.

1 Q. And so, basically, looking again at the
2 Columbus Southern page, that transition charge of .74
3 cents, that charge is effectively embedded in the
4 unbundled adjusted generation price, correct?

5 A. That is a way to look at it. I think what
6 you're saying is an attempt to say that we have
7 unbundled our generation price and given certain market
8 based generation prices being whatever they are, higher
9 or lower, we were seeking -- well, as long as they were
10 lower, we were seeking the difference.

11 The fact is -- the question is: Is the
12 transition charge in the unbundled generation price?
13 It's not clearly a "yes" or "no" answer.

14 Q. Well, assuming, and we can confirm this with
15 Mr. Roush, but assuming that adjusted unbundled
16 generation price there is, in fact, your frozen
17 generation rate, clearly there is a .74-cent component
18 in that rate, correct?

19 Let me state it differently. The costs
20 associated with that .74 are being recovered in that
21 generation rate.

22 A. Well, the generation rate, as you know, it was
23 a rate that was established for Columbus & Southern in a
24 1991 case. What is in there is certainly a lot of cost
25 and revenue offsets. The market-based price was an

1 estimate by an outside witness as to what he thought
2 the, I think, first-year market prices would be in the
3 Columbus & Southern area. The .74 is the difference.
4 The rates were not based on the market prices. The
5 rates were based on the utility's cost.

6 Q. Correct. And it's your understanding under the
7 stipulation that the Company can continue to charge the
8 same frozen generation rate to customers who don't
9 switch throughout the market development period; is that
10 correct?

11 A. That is my understanding, yes.

12 EXAMINER PETRUCCI: That 3.69319 number.

13 THE WITNESS: Well, I have to be a little
14 careful because -- I mean, the rates are frozen by law,
15 and whatever -- the stipulation accepted those rates.
16 These may be somewhat different in the sense that they
17 may have transmission costs in or out. I would have to
18 look through the numbers. So the answer -- if that
19 helps then, the answer is that the Company will be
20 charging its frozen rate by law to its customers that
21 stay on and take service from the Company.

22 Q. Now originally, in its filing, the Companies
23 have proposed a transition cost rider; is that correct?
24 Shown in the last column on these two pages.

25 A. Right. The lost revenue rider.

1 Q. And as I understand it, under the stipulation,
2 those customers who switched to an alternative supplier
3 will not be charged any transition cost rider; is that
4 correct?

5 A. Will not be charged a GTC rider, which was --
6 the underlying basis of that was the lost revenue
7 approach.

8 Q. Well, and this transition charge here in the
9 last column, assuming that is equal to the TCR rider,
10 the TCR -- well, do you know whether the numbers
11 reflected in the transition charge in Column 7 are the
12 numbers that were reflected in your transition charge
13 rider?

14 A. Well, I think you've got to be careful because
15 there are really two transition charges; there's the
16 generation transition charge which is commonly called
17 the GTC, and then the regulatory transition charge
18 called the RTC. The filing requested for the GTC, the
19 generation transition charge, the ability for us to seek
20 the difference between our generation price and the
21 market price. It did not guarantee recovery of these
22 charges. It was just a test. And if the test ended up
23 so that our generation prices were higher than market,
24 we would recover the difference from a leaving customer.

25 The stipulation -- in the stipulation we

1 dropped that option.

2 Q. And originally the Company proposed to have a
3 transition charge rider and an RTC rider, "RTC" standing
4 for Regulatory Transition Cost rider.

5 A. Yes, that's correct.

6 MR. McCREA: If I may, your Honor, approach the
7 witness and hand him another page.

8 EXAMINER PETRUCCI: Sure. And while you're
9 doing that, just to make sure I understand the last
10 answer, the numbers in Column 7 are the generation
11 transition charge that the stipulation reflects will not
12 be imposed on a switching customer.

13 THE WITNESS: Correct. Just to make it
14 perfectly clear, it was a test so that, for instance, if
15 Columns 6 and 5 were equal, there would be no transition
16 charge.. If Column 5 was greater than Column 6, there
17 would be no transition charge.

18 EXAMINER PETRUCCI: Thank you.

19 THE WITNESS: It was a little different than
20 the rest of the companies in Ohio have filed for.

21 Q. (By Mr. McCrea) And, Mr. Munczinski, the page
22 I'm going to hand you is a page out of the supplemental
23 testimony of Ms. Thomas. It's Page LJT-1 Page 5 of 6.
24 It's a tariff sheet.

25 Now, again, Mr. Munczinski, just to try to

1 close this up, the page that I've just given you shows
2 the transition charge rider for Columbus Southern,
3 correct?

4 A. Yes.

5 Q. And the various cents per kilowatts shown on
6 that page match up with the previous page I gave you for
7 Columbus Southern entitled Generation Transition Charge;
8 is that correct? Column 7 of that page.

9 A. There seems to be a difference in a couple of
10 classes, but certainly for residential service, that
11 number matches.

12 Q. Okay. Differences -- okay, that's fine.

13 Now, in the Companies' original filings, the
14 Companies did intend to collect the generation
15 transition charge through the frozen rates from
16 customers who didn't switch for the full five years
17 permitted under the market development period; isn't
18 that correct?

19 A. No, that's not correct.

20 Q. Why is that not correct?

21 A. Because the Company by law was allowed to
22 collect from customers that didn't switch its tariffed
23 rate that was in place effective with the law.

24 Q. And to the extent the costs reflected in that
25 tariff established by law were above market prices, you

1 would still collect the tariff rate, correct?

2 A. We would collect the tariff rate by law
3 regardless if we were above market or below market.
4 That was part of the legislation.

5 Q. Is there anything in the stipulation that
6 obligates either of the two companies to seek an early
7 termination of the market development period?

8 THE WITNESS: Could I have that question read
9 back?

10 EXAMINER PETRUCCI: Sure.

11 (Question read.)

12 A. Not as I understand the stipulation.

13 Q. Are the Companies free to seek an early
14 termination, if they so desire, under the market
15 development period under the stipulation?

16 A. I believe that if it meets certain requirements
17 that were provided under the law, the Companies would
18 have an option to seek an end to the market development
19 period.

20 Q. Is there anything in the stipulation that
21 addresses that?

22 A. No.

23 Q. But that's the Companies' position, you have
24 that option?

25 A. Well, the stipulation, I believe, doesn't

1 change the law, so if the law allows for that option, I
2 believe the Companies still have the option.

3 Q. Does the Commission have the option then, to
4 end the market development period early under the law?

5 MR. RESNIK: Excuse me, if I may just
6 interject, I'm a little -- I know that it's difficult to
7 draw the line between cross-examining the witness on the
8 law and its tie in --

9 EXAMINER PETRUCCI: Are you objecting?

10 MR. RESNIK: No, but I wanted to see if I could
11 get a clarification that might get us over that hurdle.

12 MR. McCREA: I'll rephrase the question.

13 MR. RESNIK: All right.

14 Q. Is it the Companies' position that, under the
15 stipulation, the Commission is free to end the market
16 development period prior to the five years?

17 A. It's my understanding from -- and what I've
18 been informed of by numerous counsel, that it is the
19 Company who has the option of petitioning the Commission
20 to end the market development period, but there are
21 guidelines that the legislation gives the Commission on
22 ending the market development period.

23 Q. So within those guidelines, is it the
24 Companies' position that the Commission could end the
25 market development period early, even in light of the

1 stipulation?

2 A. I believe so.

3 MR. McCREA: Your Honor, if I may approach the
4 witness.

5 Q. Mr. Munczinski, I'd like to hand you a page
6 from the PUC's transition plan rules. Mr. Munczinski, I
7 assume you're generally familiar with the transition
8 plan rules.

9 A. In general.

10 Q. And the page I've just handed you is Attachment
11 1, shown as Page 5, and it's under Appendix D of the
12 transition charge. If you would just take a moment to
13 review particularly Paragraph (1)(a).

14 MR. RESNIK: Can I have the prelude to the
15 question read back?

16 EXAMINER DEERWESTER: Please read it back.

17 (Record read.)

18 MR. RESNIK: Can we go off the record a
19 moment?

20 EXAMINER PETRUCCI: Sure.

21 (Discussion held off the record.)

22 EXAMINER PETRUCCI: Let's go back on the
23 record, and the pages are Appendix A, Paragraph C(1)
24 that we're looking at at this point.

25 MR. McCREA: Thank you, your Honor.

1 Q. (By Mr. McCrea) Have you had a moment to
2 review that paragraph I've referenced, Mr. Munczinski?

3 A. Yes, sir.

4 Q. And doesn't that paragraph provide that the
5 unbundled generation component shall be broken down
6 into -- further unbundled to provide two separate rates?

7 A. Yes, it does.

8 Q. The first one being a transition charge for the
9 purpose of collecting charges associated with
10 generation; is that correct?

11 A. That is correct.

12 Q. And the second component being a regulatory
13 asset charge?

14 A. That is correct.

15 Q. Now, under the stipulation, will the two
16 companies be breaking their generation charge down into
17 these two components for all customers?

18 A. Yes.

19 Q. So customers will see on their bill a GTC
20 component?

21 A. No. The GTC component could be zero, or is
22 zero.

23 Q. Well, but --

24 A. So if I add zero to any number, I get that same
25 number.

1 Q. Will there be a line item on the bill saying
2 "GTC zero"?

3 A. I mean, you could ask Mr. Forrester that. I
4 guess if the Commission requires it, we could do that.

5 Q. This does seem to require --

6 A. Could lower the billing credit, but we could do
7 that.

8 Q. This does seem to require that generation be
9 broken down into two components, does it not?

10 MR. RESNIK: Your Honor, I'm going to object
11 because what Counsel is asking for is what the filing
12 requirements were for these proceedings, which are not
13 necessarily the same things that the statute provides
14 for as far as what has to or should not appear on the
15 bill.

16 EXAMINER PETRUCCI: The objection's overruled.

17 Q. So under the stipulation, is it your
18 understanding that the generation charges for customers
19 will show these components?

20 A. Well, it's my --

21 Q. -- among other things?

22 A. -- understanding that the stipulation requires
23 us to work with the parties in the workshops and that we
24 have agreed to certain outcomes of those workshops. So
25 if the workshops and the Commission rules that we should

1 break our bill into one piece or three pieces, then
2 we'll do that.

3 Q. Where does -- where are you referencing the
4 stipulation on that with respect to workshops?

5 A. On Page 7, Section XI, Paragraph 2, "The
6 Signatory Parties recognize that the OSP working group
7 is engaged in discussions to resolve and/or address the
8 issues arising in that area. The Signatory Parties
9 agree to accept any resolution of such issues agreed to
10 by the working group participants and to incorporate
11 such changes in the Companies' transition plans. The
12 Companies agree to abide by the determinations of the
13 Commission as they relate to OSP issues that are not
14 resolved by the working group participants. In doing
15 so, the Companies are not waiving their rights to seek
16 judicial review of such determinations."

17 Q. Now, is it your understanding that the OSP
18 working group is addressing the bundling of generation
19 components for the customer?

20 A. Well, it's my understanding that the OSP
21 working groups are looking at billing requirements, and
22 I thought that was your question, would these appear on
23 the bill.

24 Q. Are you aware of whether this issue has been
25 addressed in the OSP working groups to date?

1 A. No, I'm not aware.

2 Q. Have you been involved in those -- in the OSP
3 working groups?

4 A. No, I have not.

5 Q. Now, let's assume for purposes of these
6 questions that, in fact, there will be a GTC component
7 identified on customer bills, including those who do not
8 switch under the stipulation. If that is the case, then
9 basically the generation transition costs that the
10 Company would be collecting would essentially be
11 reflected by taking the Column 7, for example, of the
12 generation transition charge page we referenced earlier,
13 times the metered energy by those customers, correct?

14 A. No, that is totally incorrect. I would say
15 that if we were required to put a GTC, according to our
16 stipulation, there would be a zero value there.

17 Q. And why is that?

18 A. Because the stipulation on Page 3, Paragraph
19 IV, says "Neither Company will impose any lost revenue
20 charges (generation transition charges (GTC)) on any
21 switching customer."

22 Q. And I'm not talking about switching customers.
23 I'm talking about customers that remain with the
24 Companies.

25 A. Well, all we are allowed to do is collect our

1 adjusted unbundled generation price. As I testified
2 before, that does not include a transition charge.

3 Q. It includes costs that are above market based
4 upon the Companies' exhibit, correct?

5 A. We do not know that at all. We were not even
6 seeking that. We were seeking the option that if market
7 prices were at a certain level, we could petition the
8 Commission to charge our customers the difference.
9 We've dropped that in our stipulation, in our
10 settlement.

11 Q. Looking at Mr. Roush's workpapers for Columbus
12 Southern generation transition charge, I thought we had
13 agreed that the adjusted unbundled generation rate
14 includes the costs that have been identified as
15 transition charges. Does it not?

16 A. No. I'm sorry. I said that rate was developed
17 in a cost-of-service that was agreed to by this
18 Commission in 1991 and it reflects the costs at that
19 period and the revenue credits that were applied to
20 those costs.

21 Q. So the fact that Column 7 represents the
22 difference between the frozen rate and the market price,
23 it's your claim that there are no costs in that rate
24 that are above market based upon the Companies' exhibit;
25 is that your testimony?

1 A. What I'm testifying to is I don't know if those
2 transition costs are in there or not in there. I'm
3 telling you they were developed on two different bases.
4 So for me to say "yes," I would be incorrect, and for me
5 to say "no," I could possibly be incorrect.

6 Q. And what two bases were you talking about?

7 A. First basis, the adjusted generation price in
8 that exhibit was based on a cost-of-service developed in
9 1991, I believe, in the Zimmer case, and perhaps even
10 there's some fuel rates in there that are developed
11 since 1991; and the market price was an estimate by an
12 outside consultant of what the market prices would be in
13 the first year of the transition period. They could be
14 higher. They could be lower.

15 We were not asking for a guaranteed recovery.
16 We were asking for an option. And we gave it up in the
17 stipulation, recognizing that that value could be zero
18 for a very long time.

19 Q. Well, putting aside for a moment the customers
20 who might switch, you will collect the same generation
21 revenues as you were proposing under your original
22 filing, correct?

23 A. We are collecting the unbundled frozen rate,
24 which is required by the legislation, from the customers
25 who do not switch.

1 MR. McCREA: Your Honors, could I ask that you
2 direct the witness to answer the question?

3 EXAMINER DEERWESTER: I think the witness has
4 been answering the question. I think what we're having
5 here is a -- people talking past each other. So if you
6 could, you know, get at what you're getting at in a
7 different way, and maybe we can get this to mesh.

8 I think he's saying that there's no transition
9 charge, you know, if you're not looking at somebody who
10 switched. If you're looking at somebody who stays,
11 there's no transition charge because a transition charge
12 means what the Company loses if somebody leaves.

13 Is that what you're saying?

14 THE WITNESS: Right.

15 EXAMINER DEERWESTER: I know you're trying to
16 get at something else, so maybe you ought to get at it a
17 different way.

18 Q. Looking at the -- well, let me rephrase that.

19 Looking at, again, the workpaper from
20 Mr. Roush, Columbus Southern, under the Company's
21 original proposal, the transition charge shown in
22 Column 7 would be charged to customers who leave,
23 correct?

24 A. Yes.

25 Q. And that number is derived from subtracting

1 Column 5 from Column 6, correct?

2 A. Correct.

3 Q. And Column 6 will be charged to all customers
4 who remain on the system, correct?

5 A. Correct.

6 EXAMINER PETRUCCI: Subject to your caveat
7 earlier, however, to my question about transmission cost
8 changes.

9 THE WITNESS: Right.

10 MR. McCREA: I think we can clear that up with
11 Mr. Roush.

12 Q. Now, looking at that same page again, in
13 Column 7, the total Company-wide transition charge was
14 1.21 cents, correct?

15 A. Well, again, I didn't put the schedule
16 together, but there is a row that is listed as Total,
17 and the transition charge under the row Total is 1.218
18 cents.

19 Q. And if all your customers left, every single
20 one, the effect of this would be that you would be
21 recouping transition revenues equal to the product of
22 multiplying that 1.21 times the metered usage, correct?

23 A. Well, no, that's totally incorrect because, as
24 I have testified in the stipulation, we are not allowed
25 to collect any of this type of transition charge. Even

1 to the -- going back to the original filing where we
2 asked for a mechanism to be put in place, we were not
3 seeking any more than the authority to prove to this
4 Commission that we did have transition charges, and then
5 seeking the authority to collect that from a leaving
6 customer.

7 Q. My question really went to under your original
8 filing, your proposal there was if all your customers
9 left and if the market prices were developed as you
10 forecast, the transition revenues you would collect for
11 generation charges, if all the customers left, would
12 equal the product of 1.21 times the totalled metered
13 energy.

14 A. That is what we were seeking in the original
15 filing.

16 Q. Now, Dr. Landon in his testimony had presented
17 some estimates of stranded costs, generation costs, did
18 he not?

19 A. Yes, he did.

20 Q. And if you look -- do you happen to have a copy
21 of his supplemental testimony?

22 A. No, I do not.

23 MR. RESNIK: Do you intend to refer him to some
24 part of this?

25 MR. McCREA: I believe it's Page 10 of the

1 supplement; actually, Page 3.

2 Q. My question, Mr. Munczinski, is if you look at
3 Page 3, under his supplemental testimony at numbers --
4 let's take the high gas case just as an example. He's
5 showing stranded cost projections for CSP of 558 million
6 and for OPCO of 394 million, correct?

7 A. That seems to be an accurate statement. I have
8 not reviewed his testimony, but --

9 Q. Okay. I don't intend to go into detail, but
10 the total of those is approximately 950 million in
11 stranded costs for the two companies. My question is:
12 Under the Companies' original filings and your original
13 lost revenue method, were you going to track your
14 recovery of GTC against these types of forecasted
15 stranded costs?

16 A. No.

17 Q. Looking at Section V of the stipulation.

18 A. Yes, sir.

19 Q. This is concerning the distribution rate
20 freeze, and under this, am I correct that the two
21 companies commit to freezing distribution rates
22 beginning in 2006?

23 A. We agree to freeze distribution rates beginning
24 in 1/1/2006 through 2007 for Ohio Power and 2008 for
25 Columbus Southern Power.

AEP Ohio Files Motion For Relief And Expedited Ruling

COLUMBUS, Ohio, Feb. 27, 2012 – AEP Ohio, a unit of American Electric Power (NYSE: AEP), filed today with the Public Utilities Commission of Ohio (PUCO) a motion for relief and request for expedited ruling related to the Commission's Feb. 23 order, specifically regarding generation capacity charges.

Upon rejecting the settlement agreement, the PUCO recognized that the case to determine a capacity charge that competitive retail generation suppliers would pay AEP Ohio needed to proceed independently and that a procedural schedule would be established. While a more permanent decision remains pending regarding the appropriate capacity charge, AEP Ohio is requesting interim relief and an expedited ruling in order to avoid undue prejudice, in the form of substantial and adverse financial impacts.

"AEP Ohio has committed significant capital investment in its Ohio generation fleet under what was a regulated environment to serve our customers' generation needs," said Nicholas K. Akins, AEP president and chief executive officer. "The settlement agreement allowed AEP Ohio a reasonable transition to market over a period of time. Without that transition, we will basically be giving the capacity we built to competitive suppliers for the taking."

The company estimates that if it is required to flash cut to RPM-priced capacity this year, it would cause the company's projected 2012 earnings to drop by 27 percent and produce a return on equity (ROE) of 7.6 percent. Projected earnings for 2013 also would drop significantly by 67 percent and produce an ROE of 2.4 percent.

In the filing, AEP Ohio is asking the PUCO to maintain the status quo of what was proposed and in place for 2012 by the previously approved stipulated agreement pending an expedited resolution of the proceeding. In that agreement, AEP Ohio was to provide a percentage of its generation capacity to competitive retail suppliers at the deeply discounted RPM price.

The company also has proposed another alternative to the Commission that would permit RPM-priced capacity for any customer that has shopped for generation supply to date, while allowing AEP Ohio to use a reduced cost-based rate for new shopping, pending resolution of the proceeding.

"We feel these proposed interim solutions give the Commission alternatives to dealing with the capacity issue fairly and without prejudice until the proceeding can be resolved," said Joseph Hamrock, AEP Ohio president and chief operating officer. "Making AEP Ohio flash cut to RPM-priced capacity would have a significant financial impact on AEP Ohio and cause uncertainty and instability for our customers, the company and its investors."

AEP Ohio has proposed a procedural schedule for resolution of this case that fully submits the record for decision in 60 days and a decision on the proceeding within 90 days.

AEP Ohio provides electricity to nearly 1.5 million customers of major AEP subsidiaries Columbus Southern Power Company and Ohio Power Company in Ohio, and Wheeling Power Company in the northern panhandle of West Virginia. AEP Ohio is based in Gahanna, Ohio, and is a unit of American Electric Power. News and information about AEP Ohio can be found at aepohio.com.

American Electric Power is one of the largest electric utilities in the United States, delivering electricity to more than 5 million customers in 11 states. AEP ranks among the nation's largest generators of electricity, owning nearly 38,000 megawatts of generating capacity in the U.S. AEP also owns the nation's largest electricity transmission system, a nearly 39,000-mile network that includes more 765-kilovolt extra-high voltage transmission lines than all other U.S. transmission systems combined. AEP's transmission system directly or indirectly serves about 10 percent of the electricity demand in the Eastern Interconnection, the interconnected transmission system that covers 38 eastern and central U.S. states and eastern Canada, and approximately 11 percent of the electricity demand in ERCOT, the transmission system that covers much of Texas. AEP's utility units operate as AEP Ohio, AEP Texas, Appalachian Power (in Virginia and West Virginia), AEP Appalachian Power (in Tennessee), Indiana Michigan Power, Kentucky Power, Public Service Company of Oklahoma, and Southwestern Electric Power Company (in Arkansas, Louisiana and east Texas). AEP's headquarters are in Columbus, Ohio.

This report made by American Electric Power contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Although AEP believes that its expectations are based on reasonable assumptions, any such statements may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. Among the factors that could cause actual results to differ materially from those in the forward-looking statements are: Electric load and customer growth; weather conditions, including storms; available sources and costs of, and transportation for, fuels and the creditworthiness of fuel suppliers and transporters; availability of generating capacity and the performance of AEP's generating plants; the ability to recover regulatory assets and stranded costs in connection with deregulation; the ability to recover increases in fuel and other energy costs through regulated or competitive electric rates; the ability to build or acquire generating capacity when needed at acceptable prices and terms and to recover those costs through applicable rate cases; new legislation, litigation and government regulation including requirements for reduced emissions of sulfur, nitrogen, mercury, carbon and other substances; timing and resolution of pending and future rate cases, negotiations and other regulatory decisions (including rate or other recovery for new investments, transmission service and environmental compliance); resolution of litigation (including pending Clean Air Act enforcement actions and disputes arising from the bankruptcy of Enron Corp.); AEP's ability to constrain its operation and maintenance costs; AEP's ability to sell assets at acceptable prices and on other acceptable terms, including rights to share in earnings derived from the assets subsequent to their sale; the economic climate and growth in its service territory and changes in market demand and demographic patterns; inflationary trends; its ability to develop and execute a strategy based on a view regarding prices of electricity, natural gas and other energy-related commodities; changes in the creditworthiness and number of participants in the energy trading market; changes in the financial markets, particularly those affecting the availability of capital and AEP's ability to refinance existing debt at attractive rates; actions of rating agencies, including changes in the ratings of debt; volatility and changes in markets for electricity, natural gas and other energy-related commodities; changes in utility regulation, including membership and integration into regional transmission structures; accounting pronouncements periodically issued by accounting standard-setting bodies; the performance of AEP's pension and other postretirement benefit plans; prices for power that AEP generates and sells at wholesale; changes in technology, particularly with respect to new, developing or alternative sources of generation and other risks and unforeseen events, including wars, the effects of terrorism (including increased security costs), embargoes and other catastrophic events.

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**Summary: Testimony of J. Edward Hess on Behalf of Industrial Energy Users-Ohio
electronically filed by Mr. Samuel C. Randazzo on behalf of INDUSTRIAL ENERGY USERS
OF OHIO GENERAL COUNSEL**