OCC EXHIBIT ______

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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

DIRECT TESTIMONY
OF
DANIEL J. DUANN, Ph.D.

On Behalf of
The Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
(614) 466-8574

May 4, 2012

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I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.

A1. My name is Daniel J. Duann. My business address is 10 West Broad Street, Suite 1800, Columbus, Ohio, 43215-3485. I am a Principal Regulatory Analyst with the Office of the Ohio Consumers' Counsel ("OCC").

Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A2. I received my Ph.D. degree in public policy analysis from the Wharton School, University of Pennsylvania. I also have a M.S. degree in energy management and policy from the University of Pennsylvania and a M.A. degree in economics from the University of Kansas. I completed my undergraduate study in business administration at the National Taiwan University, Taiwan, Republic of China. I am a Certified Rate of Return Analyst, conferred by the Society of Utility and Regulatory Financial Analysts in April 2011.

I was a Utility Examiner II in the Forecasting Section of the Ohio Division of Energy, Ohio Department of Development, from 1983 to 1985. From 1985 to 1986, I was an Economist with the Center of Health Policy Research at the American Medical Association in Chicago. In 1986, I joined the Illinois Commerce Commission as a Senior Economist in its Policy Analysis and Research Division. I was employed as a Senior Institute Economist at the

National Regulatory Research Institute ("NRRI") at The Ohio State University from 1987 to 1995. My work at NRRI involved many areas of utility regulation and energy policy. I was an independent business consultant from 1996 to 2007.

I joined the OCC in January 2008 as a Senior Regulatory Analyst. I was promoted to my current position in November 2011. My responsibilities are to assist OCC in participating in various regulatory proceedings before the Public Utilities Commission of Ohio ("PUCO" or "Commission"). These proceedings include rate cases, alternative regulation, fuel cost recovery, service reliability, and other types of filings by Ohio's electric, gas and water companies. For example, I was part of the case team that analyzed the Electric Security Plan ("ESP") filings by Columbus Southern Power Company ("CSP") and Ohio Power Company ("OPC") (collectively, "AEP Ohio" or "Company") in 2008 and 2011. I also testified in AEP Ohio's 2009 Fuel Adjustment Clause ("FAC") Audit proceeding (Case No. 09-872-EL-FAC and 09-873-EL-FAC), and AEP Ohio ESP Remand proceeding (Case No. 08-917-EL-SSO and 08-918-EL-SSO). I have participated and prepared comments in a number of proceedings related to the Significantly Excessive Earnings Test, the reliability performance standards, the Enhanced Service Reliability Rider ("ESSR"), and the Phase-In Recovery Rider ("PIRR") of AEP Ohio over the last several years.

Q3. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO OR OTHER AGENCIES?

A3. Yes. I have submitted expert testimony on behalf of OCC before the PUCO in a number of cases involving electric, gas, and water companies. A list of these cases is included in Attachment DJD-A. I have also testified before the Ohio Division of Energy, the Illinois Commerce Commission, and the Senate Committee on Energy and Public Utilities of the California Legislature.

Q4. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF YOUR TESTIMONY?

A4. In addition to those documents that I identified in my earlier testimonies filed on July 25, 2011 and September 27, 2011 in this proceeding, I have also reviewed additional material related to the Modified ESP filed on March 30, 2012 by AEP Ohio. Specifically, I reviewed the Application of the Modified ESP and its attachments, the supporting testimonies, the work papers related to the supporting testimonies, and related discovery pertaining to the Modified ESP.

Q5. WHAT ARE YOUR QUALIFICATIONS TO ADDRESS THE ISSUES DISCUSSED IN YOUR TESTIMONY?

A5. I am a trained economist with over twenty years of experience in studying and analyzing regulation of electric utilities in the United States. A list of my professional publications is included in Attachment DJD-B. I am familiar with the major issues related to the Modified ESP, the Stipulation filed by AEP Ohio and certain interveners in September 2011, and the original ESP filed in January 2011. I have participated and testified in a number of proceedings involving the rates, service reliability, and cost recovery of AEP Ohio before the PUCO. Many of the issues addressed in those proceedings are similar or closely related to the issues to be adjudicated in the Modified ESP.

II. PURPOSE OF TESTIMONY

Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A6. The purpose of my testimony is to explain and support OCC's position on certain provisions of the Modified ESP. The Modified ESP, in its current form, does not benefit AEP Ohio's customers and is not in the public interest. Several provisions of the Modified ESP violate important regulatory principles and practices and impose an unjust and unfair financial burden on AEP Ohio's customers. These provisions should be removed or modified. They include the Retail Stability Rider ("RSR"), the PIRR, and the collection of environmental carrying charges bundled with the base generation rate over the entire ESP period.

Q7. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE MODIFIED ELECTRIC SECURITY PLAN.

A7. The Modified ESP should be changed. Specifically, I recommend that the Commission reject the RSR that is designed to guarantee a certain level of non-fuel generation revenue for AEP Ohio during the period of the ESP. Based on the advice of the counsel and my experience as a regulatory economist, I find there is no legal basis for such a charge and that the Company has not shown the RSR charge benefits its customers. Allowing the RSR will not advance the state policy of ensuring access to reasonably priced electric service.

I also recommend that the proposed PIRR be modified in order to ensure that customers are provided reasonably priced electric service. The PIRR, as proposed by AEP Ohio in a separate proceeding (Case Nos. 11-4920-EL-RDR and 11-4921-EL-RDR) and revised in the Modified ESP, is based on an over-stated FAC deferral balance and an unjustified high interest rate before and during the amortization period. The FAC deferral balance is overstated due to a number of reasons. Overstatement of the FAC deferral balance means that customers will be charged more than they should otherwise be charged. Overcharging customers is not in keeping with the objectives of the state to ensure reasonably priced electric service. The Commission has ordered several immediate credits (reductions) to the FAC deferral balance that have been recognized by AEP Ohio up to now. There will also likely be further adjustments or credits to the FAC deferral balance after the resolution of several pending proceedings in the near future. Additionally, the FAC deferral balances are overstated due to the collection of provider of last resort ("POLR") charges from April 1, 2009 through May 2011, which both the PUCO and the Court found to be unjustified.

Consequently, OCC recommends that any PIRR charges should be collected subject to refund and with interest to customers on any over-collection. This requirement of collection subject to refund is necessary to protect AEP Ohio's customers. It will safeguard customers from paying too much for electric service and should enable customers to seek a refund for overpayments, should the PUCO and/or the Supreme Court of Ohio order reductions to the FAC deferral balance.

I recommend using the cost of long-term debt and against using a weighted average cost of capital ("WACC") to calculate the carrying charges on the deferral balance during the amortization period and the delay period proposed by AEP Ohio. The use of the WACC during the amortization and delay period is unreasonable and inconsistent with Commission precedent. It will cause customers to pay unnecessarily high electric retail rates, which is inconsistent with the state policy of ensuring that customers have reasonably priced electric service.

Lastly, I recommend that environmental carrying charges, if allowed to continue at the current level, be terminated when the generation assets are transferred from AEP Ohio to its affiliated generation company. Once AEP Ohio is no longer the owner of these generation assets, AEP Ohio's customers should not be asked to continue funding the environmental compliance investments associated with these generation assets through regulated tariffs.

III. RETAIL STABILITY RIDER

Q8. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE RETAIL STABILITY RIDER AS PROPOSED IN THE MODIFIED ESP.

A8. It is my understanding that AEP Ohio's objective in seeking approval of the RSR is to have a guarantee to collect all "lost" non-fuel generation revenue that may result from a customer shopping or moving out of the service territory, from its remaining customers. To put it another way, the RSR is intended to "decouple" the non-fuel generation revenue from the level of shopping for electric service within AEP Ohio's service territory over the term of the Modified ESP. AEP Ohio further states that it asks for approval of the RSR in exchange for the offering of some "benefits" to its customers under the Modified ESP.[1] There is no showing of any inherent economic efficiency or equity consideration, as presented in the Modified ESP, in proposing the RSR.

According to AEP Ohio witness Allen, the RSR is calculated to target a level of non-fuel generation revenues similar to the level collected by AEP Ohio in 2011.[2] The non-fuel generation revenue is defined as the sum of base generation revenues, the current level of Environmental Investment Carrying Cost Rider ("EICCR") revenues, and the competitive retail electric service ("CRES")

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[1] *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan,* Case No. 11-346-EL-SSO et al., Direct Testimony of Robert T. Powers at 18-19.

[2] See Direct Testimony of William A. Allen at 13.

capacity revenues.[3] In calculating the annual target of non-fuel generation revenues for 2012 to 2015, AEP Ohio uses the 2011 base generation and EICCR revenues of $967 million and the 2011 CRES capacity revenues of $54 million. An imputed "Credit for Shopping Load" of $15 million is added as part of the 2011 annual non-fuel generation revenue.[4] The annual target of non-fuel generation revenue for 2012 to 2015 is then derived by assuming a return on equity of 10.5% on AEP Ohio's 2011 equity of $4.450 billion.[5]

Based on the proposed methodology summarized above, AEP Ohio sets a non-fuel generation revenue target of $929 million each year for the duration of the ESP.[6] Using this annual target of non-fuel generation revenue, AEP Ohio then develops the estimates of RSR collection needed to reach the annual non-fuel generation revenue target.[7] AEP Ohio estimates the RSR revenues needed to reach the annual target of non-fuel generation revenue are $44.1 million in PY 12/13 (PJM Planning Year of 2012 to 2013), $102.9 million in PY 13/14, and $137.2 million in PY 14/15.[8] It should be noted these projected RSR revenues are

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[3] Ibid.

[4] According to AEP Ohio, the imputed "Credit for Shopping Load" of 2011 is calculated based on a shopping load of 4,935 GWh and a hypothetical $3/MWh credit for possible energy margins that could be realized by AEP Ohio for reductions in standard service offer ("SSO") load. See Allen Testimony at 13-14 and Exhibit WAA-6.

[5] The calculation of the annual non-fuel generation revenue target of $929 million is further illustrated in Allen Testimony at 14 and Exhibit WAA-6.

[6] See Allen Testimony at 14.

[7] See Allen Testimony Exhibit WAA-6.

[8] See Allen Testimony Exhibit WAA-6.

just estimates and they will be adjusted and trued-up annually during the ESP period. The RSR to be collected, if approved by the Commission, may turn out to be higher if the SSO customer load or the shopping customer load is lower than currently projected. For example, events such as a severe economic downturn that cut into demand for electricity would require that the Company be compensated, through the RSR, for the reduced flow of revenues.

After the targeted RSR revenue is calculated, the rates for different customer classes are developed based on a cost allocation methodology selected by AEP Ohio.[9] According to AEP Ohio witness Roush, the RSR is designed as a nonbypassable charge per kWh that varies by customer class.[10] AEP Ohio also proposes to reconcile any over- or under-collection of the RSR on an annual basis to ensure that no more, or less, than the actual amount required to meet the revenue target is collected.[11] There will be a final true-up of the RSR collection shortly after the end of the ESP period.

In addition, any increase to the Rider Interruptible Power – Discretionary ("IRP-D") credit will be reflected in the non-fuel base generation revenues used to determine the RSR revenue target. In other words, if the IRP-D credit increases, the Company will include the lost revenues attributable to the increased credits in

[9] See Direct Testimony of David M. Roush at 12-13.

[10] See Roush Testimony at 12.

[11] See Roush Testimony at 12-13.

the RSR revenue target, thereby causing the need for even more RSR collection from customers.[12]

Q9. WHAT ARE THE COST IMPLICATIONS TO AEP OHIO'S CUSTOMERS IF THE RETAIL STABILITY RIDER IS IMPLEMENTED?

A9. There are two implications. First, under the RSR, customers are guaranteeing that AEP Ohio will collect a fixed level of non-fuel generation revenue each year during the ESP period regardless of the connected load served the Company. This guarantee, in the form of the RSR, will lead to higher electricity rates and financial uncertainty to all native load customers. Higher electricity rates than otherwise necessary will likely impede the state policies of ensuring reasonably priced electric retail service and facilitating the state's effectiveness in the global economy. Moreover, AEP Ohio's SSO customers will receive nothing tangible in return for providing such a guarantee. For those non-SSO customers, i.e. those who shop, the financial advantage of switching to a CRES provider will be reduced by what they will be paying to AEP Ohio under the RSR.

The second implication of the RSR, if implemented as proposed, is that it may cause a significant cost shift from the shopping customers to SSO (non-shopping) customers. There are two "drivers" in determining the required RSR revenue: the

[12] See Roush Testimony at 9.

extent of customer shopping and the capacity price charged to CRES providers.[13] As more customers switch to CRES providers for generation service, the RSR revenue to be collected from customers will increase. Similarly, if the RSR is adopted, the bigger the difference between the Commission-approved capacity price and the tiered capacity prices specified by AEP Ohio in calculating the RSR, the larger the amount of the required RSR revenue to be collected from customers.

Either way, AEP Ohio's SSO customers are being asked to subsidize other parties (AEP Ohio, the shopping customers, and possibly the CRES providers) for any shortfall between non-fuel generation revenue actually collected and the $929 million annual target set by AEP Ohio. This kind of subsidization appears to be inconsistent with the state policy contained in R.C. 4928.02(H) which prohibits anti-competitive subsidies.

Q10. IS THE RETAIL STABILITY RIDER AUTHORIZED UNDER OHIO STATUTES?

A10. No. I have been advised by counsel that there is no legal basis for the RSR as proposed by AEP Ohio. In its response to an OCC Discovery Request (INT. 3-055), AEP Ohio indicated that the RSR can be based on Ohio Revised Code

[13] Customers moving out of AEP Ohio's service territory will also contribute to the increase in needed RSR collection. But this effect on the collection of RSR is less significant in terms of cost shifting between SSO and shopping customers, and may be at least partially offset by new customers moving into AEP Ohio's service territory.

4928.143(B)(2)(d). See Attachment DJD-C. However, I could not find any provisions identified in that subsection that would allow the Company to create a rider in the ESP that guarantees a fixed level of non-fuel generation revenue for an electric utility.

Q11. SHOULD THE COMMISSION ADOPT A RATE MECHANISM, SUCH AS THE RETAIL STABILITY RIDER, THAT GUARANTEES A SPECIFIC LEVEL OF NON-FUEL GENERATION REVENUE COLLECTED BY AN ELECTRIC UTILITY IN OHIO?

A11. No. As stated previously, there is no legal basis for the RSR. In addition, I find that the RSR, as proposed in the Modified ESP, is inconsistent with two long-established regulatory principles and practices.

First, the RSR is not consistent with the regulatory principle of providing an opportunity, not a guarantee, for a regulated utility to earn a return on invested capital that is comparable to the alternative investments with similar risk. More specifically for the electric utility industry, under the traditional rate of return regulation (or cost-based regulation), the rates charged by the electric utility are always set in a way that only provides an opportunity, not a guarantee, to earn the utility a targeted revenue and rate of return on its invested capital.

In a market-based economy such as the United States, there is even less inclination to provide any guarantee through government action, in a competitive market or in a transition to a competitive market, to a market participant to meet targeted revenue or return on invested capital. The electricity generation market in Ohio is in a transition to a competitive market, if not already a competitive market in some respects. In practical terms, I am not aware of any electric distribution utility ("EDU") in Ohio collecting a charge that guarantees itself non-fuel generation revenue over an extended period of time. Also, many EDUs in Ohio did not earn the ROEs granted in their most recent rate cases or ROEs specified in their respective ESPs. Some EDUs earned more than the granted ROEs while other EDUs earned less. But the Commission has not adjusted the SSO rates or riders charged by these Ohio EDUs in order to guarantee that the utility achieves the granted ROE.

Second, the RSR is inconsistent with the regulatory principle of setting regulated rates largely based on cost causation and not creating a subsidy from one customer group to another group unless there is a showing of public interest. In other words, any substantial subsidy from one group of customers to another group of customers, which will happen with the implementation of the RSR, should be considered by the Commission only after a demonstration that such a subsidy is needed to achieve specific public policy goals. As discussed before, AEP Ohio has not demonstrated any inherent efficiency and equity justifications for the RSR in the Modified ESP, and the RSR will result in cost shifting to the SSO customers from other parties, in particular from AEP Ohio.

Q12. DOES THE RETAIL STABILITY RIDER PROVIDE ANY REAL BENEFITS, AS CLAIMED BY AEP OHIO, TO ITS CUSTOMERS?

A12. No. The RSR provides no real benefits to AEP Ohio's native load customers. As stated before, AEP Ohio – which bears the burden of proof in this proceeding – has not demonstrated any inherent economic efficiency or fairness rationale for establishing the RSR. AEP Ohio has indicated that the "need for a RSR charge stems largely from the financial harm to AEP Ohio that would otherwise result from the modified ESP package as a whole."[14] It was explicitly stated by AEP Ohio that the RSR is an exchange between its customers and AEP Ohio for the Company to offer a range of so-called "benefits" to the customers under the Modified ESP.[15] Specifically, AEP Ohio witness Powers identified three items (or "benefits") the Company is offering in exchange for the RSR: a discount in capacity cost from its own estimated embedded capacity cost numbers; no change in base generation rate; and the Company will bear the going-forward risk of environmental compliance in the form of continuing to collect the existing level of environmental carrying charges.[16] AEP Ohio witness Dias also indicated the delay of the PIRR for one year and the delay of a unified FAC rate as additional benefits of the RSR.[17]

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[14] See Powers Testimony at 18.

[15] Ibid.

[16] See Powers testimony at 18-19.

[17] See Supplemental Direct Testimony of Selwyn J. Dias at 3.

I do not find these so-called benefits real to AEP Ohio's customers. First, I do not consider the offering of a capacity price to CRES providers below AEP Ohio's own estimated embedded capacity cost as a "discount" or a benefit to customers. The Tier 1 or Tier 2 capacity prices as proposed in the Modified ESP are actually equal or higher than the current and expected capacity prices under the default capacity pricing mechanism, PJM's Reliability Pricing Model ("RPM") currently in place. Second, keeping the base generation rate at the current level is not a benefit to AEP Ohio's customers when the auction prices of generation service or prices of electricity service by CRES providers in Ohio have generally declined and are expected to decline further over the next few years. One AEP Ohio witness has indicated there were significant reductions in forward energy prices in the PJM markets recently.[18]

Third, continuing the current level of environmental carrying charges does not represent, in my view, a significant reduction in costs to customers. AEP Ohio's claim of savings depends on whether the Commission will allow the collection of environmental carrying charges in the same fashion as the EICCR approved in the first ESP. There is no indication if this is indeed the case. Furthermore, AEP Ohio has substantial control, and rightly so, regarding the timing and magnitude of capital investments for environmental compliance purposes over a relatively short period of time such as the next two years. Under this circumstance, the

[18] See Allen Testimony at 4.

continuous collection of the current level of environmental carrying charges will not necessarily represent any cost saving to AEP Ohio's customers.

Fourth, the delay of the PIRR, as discussed fully later in my testimony, is not a benefit but a significant cost increase and an additional financial burden to AEP Ohio's customers. This unnecessary cost increase is not consistent with the state policy, which addresses the need to ensure reasonably priced electric service. A one-year delay of the PIRR's implementation, coupled with the very high carrying charge, about 11.15%, will lead to a substantial increase on an already large FAC deferral balance that AEP Ohio's customers will be asked to pay in the next few years.[19] The delay of a unified FAC rate for one year, as discussed by Mr. Dias, is not a real benefit to AEP Ohio's customers. By definition, a unified FAC rate is neutral in terms of the overall revenue impact on AEP Ohio's customers as a group.

Q13. IF THE COMMISSION WERE TO APPROVE THE RETAIL STABILITY RIDER, SHOULD AEP OHIO'S SSO CUSTOMERS BE REQUIRED TO PAY FOR IT?

A13. No. First of all, as I have testified, the Commission should reject the RSR. If the Commission decides to approve the RSR, which OCC does not recommend, SSO customers should not be required to pay the RSR. As discussed before, the

[19] I estimate, later in my testimony, that the one-year delay as proposed by AEP Ohio, will cost its customers about $64.5 million.

increase in the required annual RSR collection is largely driven by the level of shopping within AEP Ohio's service territory and the level of capacity prices set by the Commission. As more customers switch to CRES providers for electricity, the required RSR collection will increase, assuming there is a difference between the capacity price set by the Commission and the tiered capacity costs specified by AEP Ohio in the RSR. The SSO customers, by staying with AEP Ohio for generation service, do not create the claimed need for the RSR in the first place or contribute to any increase in required RSR collection. It is unreasonable and unfair to ask SSO customers to pay, through the RSR, for the "lost revenues" they do not cause in the first place. Requiring the SSO customers to do so can result in a subsidization of competitive retail service by SSO customers, which may not be permitted under R.C. 4928.02(H).

And, as explained by AEP Ohio witness Allen, the SSO customers are already paying, through the proposed base generation rate, the full embedded capacity cost of $355.72/MW-day estimated by AEP Ohio.[20] In other words, the SSO customers are currently paying and will continue paying a full capacity rate that is higher than the proposed Tier 1 and Tier 2 capacity costs charged to CRES providers and presumably paid by the shopping customers. As the SSO customers are already paying more for electricity generation than the shopping customers, there is no justification to have a rate mechanism that will collect

[20] See Allen Testimony at 9.

additional charges from the SSO customers to compensate AEP Ohio for the alleged lost revenue due to customers' shopping. Because the RSR revenues that could be collected are very significant, and could amount to even more than $284 million identified by the Company, approving the RSR is likely to conflict with the state policy of keeping reasonably priced electric service.

Q14. IF THE COMMISSION WERE TO APPROVE THE RETAIL STABILITY RIDER AS A NONBYPASSABLE CHARGE, WHAT IS OCC'S POSITION REGARDING THE COST ALLOCATION AND RATE DESIGN OF THE RSR AMONG CUSTOMER CLASSES?

A14. This issue will be addressed by another OCC Witness, Dr. Amr Ibrahim, in his testimony.

IV. PHASE-IN RECOVERY RIDER

Q15. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE PHASE-IN RECOVERY RIDER AS PROPOSED BY AEP OHIO IN BOTH THE PIRR PROCEEDING AND THE MODIFIED ESP.

A15. The terms and conditions proposed by AEP Ohio regarding the PIRR are presented in a separate proceeding now pending before the Commission (Case Nos. 11-4920-EL-RDR and 11-4921-EL-RDR). In the Modified ESP, AEP Ohio proposes two changes regarding the implementation of the PIRR. AEP Ohio proposes a delay of the PIRR for one year; collection of the PIRR will begin June 1, 2013 and continue until fully amortized on December 31, 2018.[21] AEP Ohio also proposes a unified PIRR rate when amortization starts, and the FAC deferral balance will to continue to accrue a Weighted Average Cost of Capital ("WACC") - based carrying charge during the delay period.[22] AEP Ohio also requests the Commission to suspend the procedural schedule currently established in the PIRR proceeding.[23]

In the Application in Case Nos. 11-4920-EL-RDR and 11-4921-EL-RDR ("PIRR Case Application"), filed by AEP Ohio on September 1, 2011, the Company is seeking approval of a mechanism to recover the fuel costs ordered to be deferred for later collection by the Commission in the Initial ESP cases (Case No. 08-917-EL-SSO and 08-918-EL-SSO).[24] At that time, AEP Ohio estimated the deferral balances as of December 31, 2011 to be a negative $3,896,041 (over-collection) for CSP and $628,073,325 for OPC.[25] AEP Ohio also proposed an amortization period starting January 2012 and ending December 2018, with the carrying charge during the amortization period to be calculated at the WACC of 11.15%.[26] AEP Ohio estimated the annual revenue requirement of the PIRR to be $129,644,938 –

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[21] See Dias Testimony at 10.

[22] See AEP Ohio Modified ESP Application at 15.

[23] Ibid., and Roush Testimony at 6.

[24] *In the Matter of the Application of Columbus Southern Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Ordered Under Ohio Revised Code 4928.144,* Case No. 11-4920-EL-RDR, Application (September 1, 2011).

[25] PIRR Application Exhibit A, 1 of 7.

[26] PIRR Application at 3.

based on the estimated deferral balance, the proposed interest rate, and a seven-year amortization period. The PIRR would be collected through a per-kWh charge adjusted for different voltage levels. The PIRR collection would be subject to an annual true-up during the amortization period and a final true-up after the end of the collection period.

It is unclear at the present time whether there will be a hearing in the PIRR proceeding or how the PIRR will be handled through the Modified ESP. In any event, I offer OCC's position in the following paragraphs on the more important aspects of the PIRR, if the Commission chooses to decide the PIRR in this proceeding.

Q16. DO YOU SUPPORT AEP OHIO'S PROPOSAL IN THE MODIFIED ESP TO DELAY THE COLLECTION OF THE PIRR REVENUE FROM ALL CUSTOMERS UNTIL JUNE 1, 2013?

A16. No. I do not support delaying the PIRR. Delaying the PIRR is unnecessary and will allow the Company to accrue a large amount of additional carrying charges at a very high WACC rate. I estimate that a one-year delay (from June 2012 to June 2013) in the PIRR will increase the FAC deferral balance by $64.5 million, using an updated deferral balance of $549,406,385 provided in a discovery response by AEP Ohio,[27] and an annual interest rate of 11.15% as filed in the PIRR Case Application. See Attachment DJD-E. This $64.5 million in carrying charge is an

[27] The discovery response by AEP Ohio in the PIRR case is included in Attachment DJD-D.

increase that can be avoided by not delaying the collection of the PIRR revenue. Collecting the PIRR now instead of later is a way of limiting the rate increases that customers have to bear over the entire amortization period and is in keeping with the policy of the state to ensure reasonably priced electric service.

Moreover, there is no justification to ask AEP Ohio's customers to pay for these significant additional costs in this challenging economic environment. Delaying the PIRR for one year does not make the FAC deferral balance go away, it will only cause additional carrying charges for customers to pay and increase the FAC deferral balance from the current estimated balance of $549,406,385 to a higher level of $ 613,894,796 at June 2013.[28] Although the delay may lessen the increase in customers' rates the first year of the ESP, customers will wind up paying more in the long run. Allowing more costs to pile up and collecting those costs later from customers will not advance the state policy of ensuring reasonably priced electric service.

[28] See Attachment DJD-E. The calculation here is an illustration of the very high cost of one-year delay of the PIRR. OCC does not support the beginning FAC balance and the interest rate proposed by AEP Ohio. The actual FAC deferral balance may also be affected by the Commission's decision in this proceeding and other proceedings.

Q17. DO YOU SUPPORT AEP OHIO'S PROPOSAL TO ACCRUE THE WACC-BASED CARRYING CHARGES ON THE DEFERRAL BALANCE DURING THE PIRR DELAY PERIOD?

A17. No. I do not support accruing carrying charges based on AEP Ohio's WACC during the one-year delay period. First of all, this delay was initiated by AEP Ohio, not by its customers. It is unreasonable and inconsistent with state policy, for the Company to charge customers to finance the delay at all, let alone at the high WACC interest rate of AEP Ohio.

Second, the current FAC costs for serving AEP Ohio's customers are no longer being deferred after January 1, 2012. Thus, there is certainty that the amortization of the FAC deferral balance will start shortly. This certainty in future collection means that if AEP Ohio is allowed to impose carrying charges on the PIRR during the delay period, a lower risk should equate to a lower interest rate, such as the cost of long-term debt instead of the much higher WACC, being used. I do not support the notion that AEP Ohio is entitled to earn a return on its own capital (through the WACC) during the time when the PIRR is delayed at the Company's request.

Q18. SHOULD THE FAC DEFERRAL BALANCE BE RECALCULATED BEFORE THE START OF THE AMORTIZATION PERIOD?

A18. Yes. For example, the Commission has directed AEP Ohio to apply two credits toward the FAC deferral balance. In the 2009 FAC Audit Proceeding (Case No.

09-872-EL-UNC et al.), the Commission directed AEP Ohio to immediately credit the FAC deferral balance in the amount of the full realized value of a coal settlement agreement.[29] Specifically, the portion of the $30 million 2008 lump sum payment not already credited to customers and the $41 million value of the West Virginia coal reserve already booked when the Settlement Agreement was executed should be credited against the FAC deferral balance. In the Entry on Rehearing, the Commission affirmed the two credits and once again directed AEP Ohio to apply them to the FAC deferral balance immediately.[30] It appears that AEP Ohio has estimated the PIRR Total Balance as of March 31, 2012 with the provision for these two credits ordered by the Commission.[31] There may be additional adjustments to the deferral balance before the implementation of the PIRR at a future date yet to be determined.

Q19. SHOULD THE FAC DEFERRAL BALANCE BE RECALCULATED TO ACCOUNT FOR THE OVER-COLLECTION OF POLR AND ASSOCIATED CARRYING CHARGES DURING THE PERIOD OF APRIL 2009 TO MAY 2011, PENDING THE OUTCOME OF THE APPEAL TO THE OHIO SUPREME COURT?

A19. Yes. The Industrial Energy Users-Ohio and OCC filed Notices of Appeal of the Remand Order at the Supreme Court of Ohio. OCC is seeking to remedy the

[29] See *In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power and Ohio Power,* Case No. 09-872-EL-FAC et al., Opinion and Order at 12 (January 23, 2012).

[30] See Id., Entry on Rehearing at 10 (April 11, 2012).

[31] See Attachment DJD-D.

unlawful charges, specifically the estimated $368 million (plus carrying charges) of POLR charges collected from April 2009 through May 2011.[32] Both OCC and IEU support reducing the FAC deferral balance by the over-collection of the POLR charge and associated carrying charges.

Q20. PLEASE IDENTIFY OTHER POTENTIAL ADJUSTMENTS AND CREDITS RELATED TO THE THREE AEP OHIO FAC AUDITS.

A20. There are at least two potential significant credits that may be applied to the FAC deferral balance in the near future. One is the full value of the West Virginia coal reserve not yet booked by AEP. The other is the auditor's recommendations in the 2010 AEP Ohio FAC Audit Report regarding the calculation of carrying charges and WACC related to the accumulated deferred income tax ("ADIT").

In the fully adjudicated 2009 AEP FAC Audit proceeding, the Commission directed AEP Ohio to hire an auditor specifically to examine the value of the West Virginia coal reserve and to make a recommendation to the Commission as to whether the increased value, if any, should accrue to customers beyond the value of the coal reserve already booked under the Settlement Agreement.[33] The value of the West Virginia coal reserve is not known at this time. But I expect the value of the coal reserve to be substantial based on my understanding of the coal reserve

[32] IEU filed its notice on February 1, 2012 and OCC filed its notice on February 10, 2012, both in Supreme Court Case No. 12-187.

[33] See *In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power and Ohio Power,* Case No. 09-872-EL-FAC et al., Opinion and Order at 12 (January 23, 2012).

and prior valuation as reported in the 2009 FAC Audit Report. OCC supports returning the full value of the coal reserve to customers.

In the 2010 FAC Audit Report, the auditor made two specific recommendations regarding the effects of accumulated deferred income tax on the true costs to AEP Ohio for financing the FAC deferral.[34] Specifically, the auditors recommended: AEP Ohio and the other parties to the case should re-examine whether the Commission authorized gross-of-tax WACC for debt and whether common equity capital should be applied to what such investors are actually financing of the fuel cost under-collection balances, which would appear to be the Deferred Fuel amounts recorded in Account 1823144 less the directly related credit-balance ADIT-Other for Deferred Fuel recorded in Account 283; and the Company should address the income tax savings it was/is recording related to the under-collected FAC balances, and how those provide non-investor supplied capital that is financing a portion of the Deferred Fuel balances that have been recorded in Account 1823144. The Company should specifically address the related credit-balance ADIT that is recorded in Account 283, ADIT-Other, for the tax savings-based financing that appears to be directly related to the under-collected FAC balances.

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[34] See *Report of the Management/Performance and Financial Audits of the FAC of the Columbus Southern Power Company and The Ohio Power Company,* Case No. 10-0286-EL-FAC et al. at 1-10 (May 26, 2011).

The Commission has not made a decision regarding the 2010 FAC Audit Report. It is not known at this time if the auditor's recommendations will be adopted or what will be the amount of potential reductions, if any, to the FAC deferral balance or other PIRR adjustments as a result of the auditor's recommendations.

Q21. SHOULD THE PIRR BE COLLECTED SUBJECT TO REFUND?

A21. Yes. As discussed above, there are still a number of adjustments and credits to be made regarding the FAC deferral balance pending the outcomes of several proceedings before the Supreme Court of Ohio and the Commission. Any PIRR rates set at this time are likely to be reduced significantly in the future. These PIRR rates should be collected subject to refund with interest. Otherwise, customers may be forced to pay for unlawful and unreasonable rates that may later be proven to be unreasonable and unlawful.[35] The Commission has, in the past, ordered utility rates to be collected subject to refund, and the Supreme Court has approved such measures.[36]

Q22. SHOULD THE AMORTIZATION OF THE FAC DEFERRAL BALANCE BE ADJUSTED TO ACCOUNT FOR THE ACCUMULATED DEFERRED INCOME TAX?

A22. This issue is addressed by another OCC witness, Ibrahim Soliman.

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[35] See Case No. 11-4920-EL-RDR, OCC Comments at 11 (April 2, 2012).

[36] See id. at 11-12.

Q23. WHAT IS YOUR RECOMMENDATION REGARDING THE INTEREST RATE USED TO CALCULATE CARRYING CHARGES DURING THE AMORTIZATION PERIOD?

A23. I recommend the interest rate used in calculating the carrying charge during the amortization period be no higher than AEP Ohio's current cost of long-term debt. This recommendation is consistent with Commission precedent and is reasonable and fair to customers and to AEP Ohio.[37] The use of a lower interest rate reflects the fact that once the deferral collection has begun, the risk of non-collection is significantly lessened, making a lower cost of financing, such as the cost of long-term debt, more appropriate. Use of a lower interest rate will assist the Commission in ensuring reasonably priced electric service.

Q24. WHAT IS YOUR RECOMMENDATION REGARDING THE LENGTH OF THE AMORTIZATION PERIOD FOR THE FAC DEFERRAL BALANCE?

A24. I recommend a shorter period of amortization than the one currently proposed in the PIRR Case Application by AEP Ohio. Other things being equal, a shorter period of amortization will definitely reduce the carrying charges AEP Ohio's customers will be required to pay over the entire amortization period. This will assist the Commission in carrying out its duty to ensure reasonably priced electric rates, consistent with the state policy espoused in R.C. 4928.02(A).

[37] See id. at 18.

For example, based on the updated deferral balance ($549,406,385) provided by AEP Ohio,[38] I estimate that using AEP Ohio's proposed interest rate of 11.15%, a five-year amortization period, as compared to the seven-year amortization period, may save customers $74.7 million in total carrying charges over the entire amortization period. See Attachment DJD-F. Even though the FAC deferral balance and the amortization period may be further revised before the PIRR is implemented, the same methodology of calculating the savings of a shorter amortization period is still applicable.

More importantly, given the potential significant reductions in the deferral balance and the use of a lower interest rate in the amortization period as advocated by OCC, I do not foresee a shorter amortization period will necessarily lead to an increase in the monthly PIRR collection from AEP Ohio's customers. Once again, based on the updated deferral balance ($549,406,385) provided by AEP Ohio, I estimate that using an interest rate of 5.27%, a six-year amortization period, as compared to the seven-year amortization period using an interest rate of 11.15%, may actually result in a reduction in estimated monthly PIRR collection of $533,437 (from $9,450,563 to $8,917,126). See Attachment DJD-G.

[38] See Attachment DJD-D.

V. ENVIRONMENTAL CARRYING CHARGES

Q25. PLEASE DESCRIBE YOUR UNDERSTANDING OF AEP OHIO'S PROPOSAL TO COLLECT ENVIRONMENTAL CARRYING CHARGES IN THE MODIFIED ESP.

A25. AEP Ohio proposes to bundle the current level EICCR with the base generation rate. AEP Ohio contends that the environmental carrying charges will remain constant over the entire pre-auction ESP period.[39]

Q26. SHOULD THE ENVIRONMENTAL CARRYING CHARGES BE TERMINATED ONCE THE GENERATION ASSETS ARE TRANSFERRED FROM AEP OHIO TO AN AFFILIATED GENERATION COMPANY OR THE GENERATION ASSETS ARE NO LONGER DEDICATED TO SERVE THE NATIVE LOAD CUSTOMERS?

A26. Yes. I recommend the collection of environmental carrying charges, if allowed to continue at the current level, be terminated when the generation assets are transferred from AEP Ohio to its affiliated generation company or when these assets are no longer being dedicated to serve the native load customers. Once AEP Ohio is no longer the owner of these generation assets, the customers of AEP Ohio should not be asked to continue funding, through regulated tariffs, the environmental compliance investments associated with these generation assets.

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[39] See Dias Testimony at 9.

Specifically, the collection of environmental carrying charge should stop at the end of ESP period or earlier.[40]

VI. CONCLUSION

Q27. DOES THIS CONCLUDE YOUR TESTIMONY?

A27. Yes. However, I reserve the right to supplement my testimony in the event that AEP Ohio, PUCO Staff or other parties submit additional testimonies, or if new information or data in connection with this proceeding becomes available.

[40] According to AEP Ohio witness Powers, the current AEP Ohio generation asset portfolio will have no direct relationship to the AEP Ohio load, once the transition to corporate separation, Pool Agreement Termination, and market-based capacity/energy procurement is complete. See Powers Testimony at 23.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Direct Testimony of Daniel J. Duann* was served via electronic transmission to the persons listed below on this 4th day of May, 2012.

/s/ Maureen R. Grady
Maureen R. Grady
Assistant Consumers' Counsel

PARTIES SERVED

Werner.margard@puc.state.oh.us
John.jones@puc.state.oh.us
lmcalister@bricker.com
MWarnock@bricker.com
stnourse@aep.com
mjsatterwhite@aep.com
tobrien@bricker.com
fdarr@mwncmh.com
joliker@mwncmh.com
ghummel@mwncmh.com
ricks@ohanet.org
msmalz@ohiopovertylaw.org
jmaskovyak@ohiopovertylaw.org
Philip.sineneng@thompsonhine.com
Dorothy.corbett@duke-energy.com
myurick@taftlaw.com
dconway@porterwright.com
cmoore@porterwright.com
haydenm@firstenergycorp.com
mkurtz@BKLlawfirm.com
dboehm@BKLlawfirm.com
emma.hand@snrdenton.com
doug.bonner@snrdenton.com
dan.barnowski@snrdenton.com
JLang@Calfee.com
lmcbride@calfee.com
talexander@calfee.com
ssolberg@eimerstahl.com
aaragona@eimerstahl.com
dstahl@eimerstahl.com
whitt@whitt-sturtevant.com
thompson@whitt-sturtevant.com
jejadwin@aep.com
mhpetricoff@vorys.com
smhoward@vorys.com
mjsettineri@vorys.com
wmassey@cov.com
henryeckhart@aol.com
jesse.rodriguez@exeloncorp.com
sandy.grace@exeloncorp.com
kpkreider@kmklaw.com
dmeyer@kmklaw.com
holly@raysmithlaw.com
BarthRoyer@aol.com
Gary.A.Jeffries@dom.com
gthomas@gtpowergroup.com
laurac@chappelleconsulting.net
Christopher.miller@icemiller.com
Gregory.dunn@icemiller.com
Asim.Haque@icemiller.com
sjsmith@szd.com
tsantarelli@elpc.org
nolan@theoec.org
trent@theoec.org
cathy@theoec.org
ned.ford@fuse.net
gpoulos@enernoc.com
sfisk@nrdc.org
zkravitz@taftlaw.com
aehaedt@jonesday.com
dakutik@jonesday.com
callwein@wamenergylaw.com
Terrance.Mebane@ThompsonHine.com
bpbarger@bcslawyers.com

vparisi@igsenergy.com
mswhite@igsenergy.com
kaelber@buckleyking.com
walter@buckleyking.com
judi.sobecki@dplinc.com
randall.griffin@dplinc.com
Carolyn.Flahive@ThompsonHine.com
Stephanie.Chmiel@ThompsonHine.com
rjhart@hahnlaw.com
rremington@hahnlaw.com
djmichalski@hahnlaw.com
jhummer@uaoh.net
tlindsey@uaoh.net
ssalamido@cloppertlaw.com
arthur.beeman@snrdenton.com

cendsley@ofbf.org
dane.stinson@baileycavalieri.com
jmclark@vectren.com
sbruce@oada.com
rsugarman@keglerbrown.com
matt@matthewcoxlaw.com
mchristensen@columbuslaw.org
toddm@wamenergylaw.com
rburke@cpv.com
bkelly@cpv.com
eisenstatl@dicksteinshapiro.com
lehfeldtr@dicksteinshapiro.com
kinderr@dicksteinshapiro.com
kwatson@cloppertlaw.com
Thomas.millar@snrdenton.com
James.rubin@snrdenton.com

AEs: greta.see@puc.state.oh.us
Jonathan.tauber@puc.state.oh.us

ATTACHMENT DJD-A

List of Testimonies Filed Before PUCO

1. Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan, Case No. 08-1094-EL-SSO.

2. Application of Ohio American Water Company to Increase Its Rates for Water and Sewer Service Provided to Its Entire Service Area, Case No. 09-391-WS-AIR.

3. Application of Aqua Ohio, Inc. for Authority to Increase its Rates and Charges in its Masury Division, Case No. 09-560-WW-AIR.

4. Application of Aqua Ohio, Inc. for Authority to increase its Rates and Charges in its Lake Erie Division, Case No. 09-1044-WW-AIR.

5. In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company, Case Nos. 09-872-EL-FAC and 09-873-EL-FAC.

6. 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 Asset (Remand), Case Nos. 08-917-EL-SSO et al.

7. In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Modify and further Accelerate its Pipeline Infrastructure Replacement Program and to Recover the Associated Costs et al., Case Nos. 11-2401-GA-ALT, and 08-169-GA-ALT.

8. In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Ohio Rev. Code in the Form of an Electric Security Plan (ESP). Case Nos. 11-346-EL-SSO, et al.

9. In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Merge and Related Approval (ESP Stipulation). Case Nos. 10-2376-EL-UNC, et al.

10. In the Matter of the Application of Ohio American Water Company to Increase Its Rates for Water and Sewer Service Provided to Its Entire Service Area. Case No. 11-4161-WS-AIR.

List of Professional Publications

Journal Articles

Regulation, The Cato Review of Business & Government, "Turning up the Heat in the Natural Gas Industry," Vol. 19, 1996, (with Kenneth W. Costello).

Managerial And Decision Economics, "Designing a Preferred Bidding Procedure for Securing Electric Generating Capacity," Vol. 12, 1991.

The Journal of Energy and Development, "Direct Gas Purchases by Local Distribution Companies: Supply Reliability and Cost Implications," Vol. 14, 1989.

Public Utilities Fortnightly, "Alternative Searching and Maximum Benefit in Electric Least-Cost Planning," December 21, 1989.

Research Reports and Presentations

The National Regulatory Research Institute, *Pricing Local Distribution Services in a Competitive Market*, 1995.

Ninth NARUC Biennial Regulatory Information Conference, Ohio State University, *The Unbundling and Restructuring of Local Distribution Services in the Post-636 Gas Market*, 1994.

The National Regulatory Research Institute, *A Survey of Recent State Initiatives on EPACT and FERC Order 636*, 1994 (with Belle Chen).

The National Regulatory Research Institute, *Restructuring Local Distribution Services: Possibilities and Limitations*, 1994.

The National Regulatory Research Institute, *The FERC Restructuring Rule: Implications for Local Distribution Companies and State Public Utilities Commissions*, 1993.

The National Regulatory Research Institute, *A Synopsis of the Energy Policy Act of 1992: New Tasks for State Public Utility Commissions*, 1993.

List of Professional Publications

International Symposium on Energy, Environment & Information Management, Argonne National Laboratory, *Natural Gas Vehicles: Barriers, Potentials, and Government Policies*, 1992.

The National Regulatory Research Institute, *Natural Gas Vehicles and the Role of State Public Service Commissions*, 1992 (with Youssef Hegazy).

The National Regulatory Research Institute, *Incentive Regulation for Local Gas Distribution Companies under Changing Industry Structure*, 1991 (with Mohammad Harunuzzaman, Kenneth W. Costello, and Sung-Bong Cho).

The National Regulatory Research Institute, *Discussion Papers on Competitive Bidding and Transmission Access and Pricing issues in the Context of Integrated Resource Planning*, 1990 (with Robert E. Burns, Kenneth Rose, Kevin Kelly, and Narayan Rau).

The National Regulatory Research Institute, *Gas Storage: Strategy, Regulation, and Some Competitive Implications*, 1990 (with Peter A. Nagler, Mohammad Harunuzzaman, and Govindarajan Iyyuni).

The National Regulatory Research Institute, *State Gas Transportation Policies: An Evaluation of Approaches*, 1989 (with Robert E. Burns and Peter A. Nagler).

The National Regulatory Research Institute, *Direct Gas Purchases by Gas Distribution Companies: Supply Reliability and Cost Implications*, 1989, (with Robert E. Burns and Peter A. Nagler).

The National Regulatory Research Institute, *Competitive Bidding for Electric Generating Capacity: Application and Implementation*, 1988 (with Robert E. Burns, Douglas N. Jones, and Mark Eifert).

OHIO POWER COMPANY'S RESPONSES
TO THE OFFICE OF THEOHIO CONSUMERS' COUNSEL'S
DISCOVERY REQUESTS
PUCO CASE 11-346-EL-SSO and 11-348-EL-SSO - Modified ESP
THIRD SET

INTERROGATORY

INT-3-055 What is the statutory basis for seeking an RSR? In other words what provision of R.C. 4928.143(B)(2) allows for the RSR?

RESPONSE

The Company objects to the extent the question assumes any party can limit the potential statutory authority available to the Commission to rely upon to makes its decisions. Notwithstanding, and without waiving that objection, the Company replies that the Commission may rely upon any statute to justify its decisions and that decision is only reviewable by the Supreme Court of Ohio. As an example, and not intended to be an exhaustive list, the Commission previously approved a stabilizing rider under R.C. 4928.143(B)(2)(d).

Prepared by: Counsel

OHIO POWER COMPANY'S RESPONSES T
OHIO CONSUMERS' COUNSEL'S
REQUEST FOR DISCOVERY IN
PUCO CASE NO. 11-4920-EL-RDR
FIRST SET

INTERROGATORY

INT- 007 Please identify the latest known actual value for the FAC deferral balances of Ohio Power and Columbus Southern Power. Additionally, please separately identify the carrying charge portion of these FAC deferral balances.

RESPONSE

Please see OCC_INT_007.xls, attached, for details supporting OPCo's PIRR balance as of March 31, 2012.

OCC-INT-007.xls
OPCo PIRR Balance as of 3/31/12

	OPCo Serv. Terr. Actualized Balance for December 2011	CSP Serv. Terr. Actualized Balance for December 2011	Per Books OPCo Actualized Balance for December 2011
A. Actualized December Balances:			
Account 1823144 - Unrecovered PIRR - OH	518,463,421	12,457,503	530,920,924
Account 1823195 - Total Carrying Charges	86,729,336	168,424	86,897,761
Account 1823142 - Deferred Carrying Charges - Equity	(46,380,149)	(86,599)	(46,466,748)
Account 1823260 - Unrecovered PIRR - OH	(64,690,518)	-	(64,690,518)
Net PIRR less estimated loss provision	494,122,090	12,539,328	506,661,418
Add back Deferred Equity Carrying Charges	46,380,149	86,599	46,466,748
Total PIRR less estimated loss provision.	540,502,239	12,625,927	553,128,167
Subsequent 2012 Activity:	OPCo Serv. Terr.	CSP Serv. Terr.	OPCo GL
Subtotal Billed PIRR			
January Billed PIRR Rider Revenue	(2,686,922)	(2,165,289)	(4,852,212)
	55.38%	44.62%	
February Billed PIRR Rider Revenue	(3,514,327)	(2,403,834)	(5,918,160)
	59.38%	40.62%	
March Billed PIRR Rider Revenue (8 days)	(1,246,740)	(905,239)	(2,151,979)
	57.93%	42.07%	
Total Billed PIRR Revenue - Q1-12	(7,447,990)	(5,474,362)	(12,922,352)
B. Total Billed & Accrued PIRR (allocated based %s above)			
January Billed & Accrued PIRR Rider Revenue	(4,063,361)	(3,273,875)	(7,337,236)
February Billed & Accrued PIRR Rider	(3,618,737)	(2,475,465)	(6,094,201)
March Billed & Accrued PIRR Rider (8 days)	294,913	214,172	509,085
Total Billed & Accrued PIRR Revenue - Q1-12	(7,387,185)	(5,535,167)	(12,922,352)
C. Current Mo. PIRR Carry Charge Collected/Accrued (Debt Rate-5.34%)			
January Billed & Accrued PIRR Rider Revenue	(1,363,134)	(1,098,286)	(2,461,420)
February Billed & Accrued PIRR Rider	(1,448,708)	(991,015)	(2,439,723)
March Billed & Accrued PIRR Rider (8 days)	(362,314)	(263,120)	(625,434)
Total Billed & Accrued PIRR Revenue - Q1-12	(3,174,156)	(2,352,421)	(5,526,577)
D. PIRR Collection/Accrual to be applied to PIRR Reg. Asset Balances (B. less C.)			
January Billed & Accrued PIRR Rider Revenue	(2,700,227)	(2,175,589)	(4,875,816)
February Billed & Accrued PIRR Rider	(2,170,029)	(1,484,449)	(3,654,478)
March Billed & Accrued PIRR Rider (8 days)	657,227	477,292	1,134,519
Total Billed & Accrued PIRR Revenue - Q1-12	(4,213,029)	(3,182,746)	(7,395,775)
E. PIRR Additions - POLR/SEET Refund Adjustments (CSP)			
February SEET & POLR Refund Adjustments-Mar GL		18,601	18,601
March SEET & POLR Refund Adjustments-Mar GL		3,064	3,064
March GL SEET & POLR Refund Adjustments	-	21,666	21,666
F. Reapply WACC beginning in March (prorated for last 23 days)			
March Prorated WACC - Debt CC	1,770,696	31,172	1,801,869
March Prorated WACC - Equity CC	1,818,445	32,013	1,850,458
G. PIRR Month-End Balances with Revenue Application (Jan-Mar), and Reapplication of WACC beginning March 9th			
January Month-End Balance **(A. plus D)**	537,802,013	10,450,338	548,252,351
February Month-End Balance **(A. plus D)**	535,631,983	8,965,889	544,597,872
March Month-End Balance before WACC **(A. plus D.)**	536,289,211	9,443,181	545,732,392
	98.27%	1.73%	
March Month-End Balance after WACC **(A. + D. +E. + F.)**	539,878,352	9,528,032	549,406,385

	OPCo GL-PIRR-Mar12
1823144-PIRR Unrecovered FAC - OH Total	$524,426,173
1823195-PIRR Carrying Charges-OH FAC Total	$89,670,730
1823142-PIRR Defd Equity Carry Chg - FAC Total	($47,854,970)
1823260-Estimated Loss Prov.-Jan23 Order	($64,690,518)
PIRR subtotal before Equity CC	$501,551,415
Add back Equity Carrying Charges (above)	$47,854,970
OPCo PIRR Total Balance as of March 31, 2012	$549,406,385

OCC Attachment DJD-E: Estimated Carrying Charge of One Year Delay of PIRR

Month	Beginning Balance*	Monthly Interest	Ending Balance
1	$549,406,385	$5,104,901	$554,511,286
2	$554,511,286	$5,152,334	$559,663,620
3	$559,663,620	$5,200,208	$564,863,828
4	$564,863,828	$5,248,526	$570,112,354
5	$570,112,354	$5,297,294	$575,409,648
6	$575,409,648	$5,346,515	$580,756,163
7	$580,756,163	$5,396,193	$586,152,356
8	$586,152,356	$5,446,332	$591,598,688
9	$591,598,688	$5,496,938	$597,095,626
10	$597,095,626	$5,548,014	$602,643,639
11	$602,643,639	$5,599,564	$608,243,203
12	$608,243,203	$5,651,593	$613,894,796
Cumulative Interest		**$64,488,411**	

Annual Interest Rate** **11.15%**

* : The beginning balance at Month 1 is the updated PIRR Total Balance estimated by AEP Ohio.
See Discovery Response OCC-INT-007.xls in the PIRR Case (No. 11-4920-EL-RDR).

** : See AEP Ohio PIRR Application, page 3.

OCC Attachment DJD-F: Estimated Impact of Various Amortization Periods

Amortization Period	Seven Years	Six Years	Five Years
Deferral Balance *	$549,406,385	$549,406,385	$549,406,385
Annual Interest Rate **	11.15%	11.15%	11.15%
Monthly Collection	-$9,450,563	-$10,499,703	-$11,986,566
Differences in Monthly Collection		$1,049,140	$2,536,003
Annual Collection ***	- $113,406,754	- $125,996,438	- $143,838,794
Total Collection ****	- $793,847,276	- $755,978,628	- $719,193,972
Total Carrying Charges *****	$244,440,891	$206,572,243	$169,787,587
Savings in Carrying Charges		$37,868,647	$74,653,304

* : The beginning balance is the updated PIRR Total Balance estimated by AEP Ohio.
See Discovery Response OCC-INT-007.xls in the PIRR Case (No. 11-4920-EL-RDR).

** : See AEP Ohio PIRR Application, page 3.

*** : Monthly Collection X 12.

**** : Annual Collection X Years of Amortization Period.

******: Total Collection minus Deferral Balance.

OCC Attachment DJD-G: Estimated Impact of Amortization Interest Rates and Amortization Period

Annual Interest Rate	**11.15%***	**5.27%****	**5.27%****
Deferral Balance ***	$549,406,385	$549,406,385	$549,406,385
Amortization Period (year)	7	7	6
Monthly Collection	-$9,450,563	-$7,835,153	-$8,917,126
Difference in Monthly Collection		-$1,615,409	-$533,437
Annual Collection ****	- $113,406,754	-$94,021,840	- $107,005,510
Total Collection *****	- $793,847,276	- $658,152,880	- $642,033,058
Total Carrying Charges ******	$244,440,891	$108,746,495	$92,626,673
Savings in Carrying Charges		$135,694,396	$151,814,217

* : See AEP Ohio PIRR Application, page 3.
** : The cost of long-term debt as determined in the most recent AEP Ohio distribution case.
*** : The beginning balance is the updated PIRR Total Balance estimated by AEP Ohio.
See Discovery Response OCC-INT-007.xls in the PIRR Case (No. 11-4920-EL-RDR).
**** : Monthly Collection X 12.
***** : Annual Collection X Years of Amortization.
******: Total Collection minus Deferral Balance.