EXHIBIT NO. _____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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

# REBUTTAL TESTIMONY OF
# PHILIP J NELSON
# ON BEHALF OF
# COLUMBUS SOUTHERN POWER COMPANY
# AND
# OHIO POWER COMPANY

Filed: May 11, 2012

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
REBUTTAL TESTIMONY OF
PHILIP J NELSON
ON BEHALF OF
COLUMBUS SOUTHERN POWER COMPANY
AND
OHIO POWER COMPANY

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

A. My name is Philip J. Nelson. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

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

A. I am employed as Managing Director of Regulatory Pricing and Analysis in the Regulatory Services Department of American Electric Power Service Corporation (AEPSC), a wholly owned subsidiary of American Electric Power Company, Inc. (AEP). AEP is the parent company of Ohio Power Company (OPCo, AEP Ohio, or Company). OPCo is the survivor of its merger with Columbus Southern Power Company (CSP), which occurred in 2011.

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

A. I graduated from West Liberty University in 1979 receiving a Bachelor of Science Degree in Business Administration, majoring in accounting. In 1979, I was employed by Wheeling Power Company (WPCo), an affiliate of AEP, in the Managerial Department. At Wheeling Power, I was responsible for rate filings with the Public

Service Commission of West Virginia (PSC), for resolving customer complaints made to the PSC, as well as for preparation of the Company's operating budgets and capital forecasts. In 1996 I transferred to the AEP-West Virginia State Office in Charleston, West Virginia as a senior rate analyst. In 1997 I transferred to AEPSC as a senior rate consultant in the Energy Pricing and Regulatory Services Department, with my primary responsibility being the oversight of AEP Ohio's Electric Fuel Component (EFC) filings. In 1999 I transferred to the Financial Planning Section of the Corporate Planning and Budgeting Department where I helped prepare AEP financial forecasts. I held various positions in the Corporate Planning and Budgeting Department until my transfer to Regulatory Services in February, 2010.

**Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR OF REGULATORY PRICING AND ANALYSIS?**

A. My department supports regulatory filings across the AEP system in the areas of cost of service, rate design, cost recovery trackers and tariff administration. It also provides expert witness testimony on AEP's east and west power pools as well as technical advice and support for power settlements and performs financial analysis of changes to AEP's generation fleet. In addition, my department provides support and filing of generation and transmission formula rate contracts.

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

A. Yes. I have testified before the Virginia State Corporation Commission and the Public Service Commission of West Virginia on behalf of Appalachian Power

Company (APCo), before the Public Service Commission of West Virginia on behalf of WPCo, before the Indiana Utility Regulatory Commission on behalf of Indiana Michigan Power Company (I&M) and before the Public Utilities Commission of Ohio (Commission) on behalf of CSP and OPCo.

## PURPOSE OF TESTIMONY

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

A. I offer rebuttal to positions taken by FES witness Lesser and Staff witnesses Harter and Medine (Staff) with respect to their embedded cost-based capacity rate calculations. I show that FES witness Lesser's removal of most of AEP Ohio's generation plant from his capacity cost calculation while not adjusting the Interconnection Agreement (AEP Pool) capacity credit is inconsistent. I demonstrate that Staff has not properly reflected the operation of the FERC-approved Interconnection Agreement (AEP Pool), and is inconsistent with the testimony of Staff witness Smith. Because Staff has reflected in its energy credit calculation the post corporate separation/AEP Pool termination proposal of AEP which includes the proposed transfer the AEP Ohio's share of Amos and the Mitchell plant, I suggest a more appropriate way to address this issue by describing both a pre and post corporate separation methodology. I also discuss the forecast generation plant and related cost information and other I provided to Company witness Meehen.

## INCONSISTENCIES IN OTHER PARTIES POSITIONS

**Q. WHAT INCONSISTENCIES ARE YOU REFERRING TO?**

A. There are several inconsistencies; however, the principal one is the full acceptance of the substantial credit associated with the AEP Pool's capacity equalization payments

to AEP Ohio as reflected in Company witness Dr. Pearce's calculation, despite the fact that those witnesses ignored other provisions of the AEP Pool or made changes in their calculations that would necessitate a corresponding reduction in the credit. In addition, Staff in its calculation of energy margins is inconsistent with Staff witness Smith with respect to the Demand and Energy allocations used by each. In particular, Staff's energy margin calculation results in the "trapping" of costs, that is to say, the exclusion of costs from both the energy margin calculation and the capacity rate calculated by Mr. Smith.

**Q. DID STAFF WITNESS SMITH AND FES WITNESS LESSER CONFIRM THAT THEY INCLUDED IN THEIR CALCULATION OF THE CAPACITY CHARGE THE 2010 POOL CAPACITY CREDIT?**

A. Yes, in the direct testimony or cross examination of both witnesses they acknowledged the inclusion of the capacity credits in their cost based calculation. Staff witness Smith confirmed this on page 60, lines 17-23 of his direct testimony. FES confirmed this on cross examination. (Tr. IX at 2095-2099). I would like to note that the amount of the credit was overstated when it was discussed during the cross of Staff witness Smith. The discussion centered on the Sales for Resale line 6 of KDP-3 and KDP-4. While that line includes AEP Pool capacity receipts as indicated in Note A, it also includes demand credits not related to the AEP Pool.

**Q. HOW MUCH OF LINE 6 OF KDP-3 AND KDP-4 IS FOR AEP POOL CAPACITY CREDITS?**

A. The amount of AEP Pool capacity credits in line 6, of KDP-3 (CSP) is $769,329 and for line 6 of KDP-4 (OPCO) it is $420,043,573. In addition CSP made capacity

payments of $19,380,410 in 2010 to the AEP Pool which are included in purchased power and therefore, when looking at the merged company they should be subtracted to arrive at a net number. The following shows both the receipts and payments.

| *Pool Capacity (Payments)/Receipts | | 2010 |
|---|---|---|
| CSP Receipts | $ | 769,329 |
| CSP Payments | $ | (19,380,410) |
| OPCo Receipts | $ | 420,043,573 |
| Total | $ | 401,432,492 |

**Q. WHAT EFFECT DOES THE AEP POOL CREDIT HAVE ON THE CAPACITY RATE IN THIS PROCEEDING?**

A. The credit reduces the capacity rate considerably. The following table converts the $401 million to a rate per MW Day.

| | | |
|---|---|---|
| Total Merged Net Pool Capacity Credit | $ | 401,432,492 |
| Divided By 5CP Demand 2010 | | 9,060.8 |
| Divided by Days | | 365 |
| | $ | 121.38 |
| Transmission Loss Factor | | 1.034126 |
| Value of AEP Pool Cr. $/MW-Day | $ | 125.52 |

Without the AEP Pool credit the capacity rate before any energy credit would be $481.24 ($355.72 + 125.52).

**Q. WHY DO YOU BELIEVE DR. LESSER IS INCONSISTENT IN HIS CALCULATION OF A COST BASED RATE?**

A. He is inconsistent because he removes both costs and megawatts in his calculation related to stranded cost, but leaves the full AEP Pool capacity credit in place, despite the fact that the AEP Pool capacity receipts are driven by the same costs and megawatts of the AEP Ohio plants that he is removing. Based on a ratio of just his cost data, the AEP Pool credit in his analysis should be no higher than $28.66/MW-Day.

| Ratio Based on Lesser Table 7, pg. 56: | | | $/MW-Day | |
|---|---|---|---|---|
| Total Production Costs Table 7, Ln. 1 | $ | 1,137,598,132 | | |
| Revised Production Costs Table 7, Ln 17 | $ | 259,724,785 | $ | 78.53 |
| Ratio of Line 17 to Line 1 | | 23% | | |
| AEP Pool Credit incl. in Ln. 1 $/MW-Day | $ | 125.52 | | |
| Ratioed AEP Pool Cr. $/MW-Day | $ | 28.66 | | |
| Reduction in AEP Pool Credit | | | $ | 96.87 |
| Capacity Rate Adjusted for Proportionate Reduction in Capacity Cr. | | | $ | 175.40 |
| Loss Adjustment to $78.53 | | | $ | 2.68 |
| | | | $ | 178.08 |

Of course, his "stranded cost" plant exclusion is not valid to begin with, which I do not address in this testimony since it is primarily a legal issue.

## TRAPPED COSTS

**Q. WHY DO YOU BELIEVE THAT THERE ARE ENERGY COSTS THAT MR. SMITH ACCEPTED THAT WERE NOT INCLUDED IN MR. HARTER'S CALCULATION?**

A. It is clear from Mr. Smith's work that he accepted the demand and energy classification that was used by Company witness Pearce and shown on Company Exhibits 3 and 4, pages 15 and 22. Mr. Harter on cross conceded that he did not pick up all of the energy components. Therefore, between Mr. Smith treating these costs as energy-related and excluding them from his capacity calculation and Mr. Harter ignoring them as energy costs and therefore not using them to reduce his energy margins, these costs fall through the cracks and become "trapped costs" for the Company. These costs, as shown in the table below, equal $66,497,475 for 2010.

| Item Excluded by Staff from Capacity or Energy | CSP | OPCO | AEP Ohio |
|---|---|---|---|
| Exhibit KDP-3&4,p.10 | $7,279,224 | $25,231,894 | $32,511,118 |
| Exhibit KDP-3&4,p.5 | $7,221,252 | $12,922,739 | $20,143,990 |
| Exhibit KDP-3&4,p.16 | $1,412,084 | $4,647,135 | $6,059,219 |
| Exhibit KDP-3&4,p.18 | $2,650,258 | $5,132,890 | $7,783,148 |
| **Total** | $18,562,817 | $47,934,658 | **$66,497,475** |

Consequently, Mr. Smith should have added these costs to his fixed charge adjustments since Mr. Harter failed to include them in his energy credit calculations. This would have resulted in an increase of $20.11/MW-day in the capacity charge on a merged AEP Ohio basis ($66,497,475 / 9060.8 / 365).

## CRITISISM OF STAFF'S ENERGY MARGIN METHODOLOGY

**Q. WHAT ARE THE PRINCIPAL FLAWS IN STAFF'S METHODOLOGY FOR CALCULATING THE ENERGY MARGIN CREDIT?**

A. The major flaws are:

- The Energy Margin Credit as calculated by Staff is highly dependent upon the level of shopping, which makes the assumed level of shopping critical to calculating a proper energy margin.
- It produces the opposite relationship between shopping level and energy margin that is produced by the traditional cost of service jurisdictional allocation.
- The treatment of the margin on SSO load is a confiscation of AEP Ohio's retail margins and a clear subsidy to CRES providers.

In addition, Company witnesses Allen and Meehan address additional flaws in Staff's Energy Margin Credit calculation.

**Q. WHAT ANALYSIS HAVE YOU DONE TO SUPPORT YOUR CRITISISMS?**

A. The Company has performed analyses which will clearly demonstrate the flaws in the Staff methodology and show that it produces an overstated energy margin without even considering the data flaws in the Aurora modeling that Company witnesses Allen and Meehan address in their rebuttal testimony. The three studies were performed using Staff's generation and gross margins at various levels of shopping. The Table below is a summary of those results:

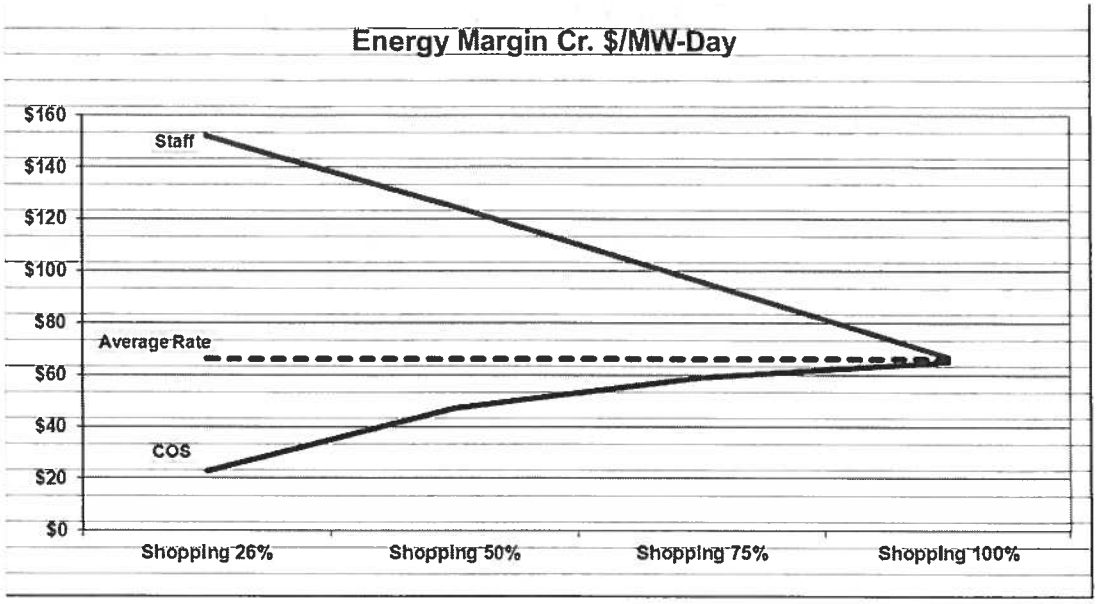
| | A | B | C |
|---|---|---|---|
| | Energy Margin Cr. $/MW-Day | | |
| Shopping | Staff Method | Cost of Service Method | Average Rate Method |
| 26% | 152 | 23 | $ 66 |
| 50% | 125 | 47 | $ 66 |
| 75% | 96 | 59 | $ 66 |
| **100%** | **67** | **65** | **$ 66** |

The first column is the Staff method and the first line shows the energy margin credit that matches the 26% shopping that Staff has used for the whole ESP period and is recommended by Staff witness Medine.

The second column uses more of a traditional jurisdictional cost of service allocation methodology that assigns only the OSS margins in the proper proportion to CRES providers, not AEP Ohio's retail margin. It is important to note that this produces the inverse of the results of Staff's methodology.

The third column is the average rate method which I believe is the preferred method.

As is apparent from the table, and more so from the graph below, at 100% shopping all the energy margins converge.



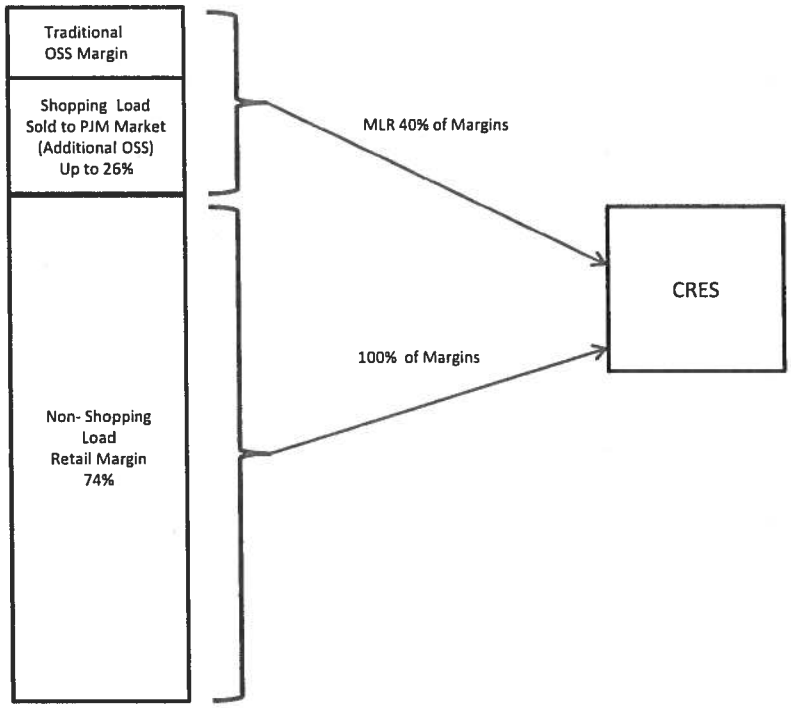

**STAFF METHOD OF CALCULATING ENERGY MARGIN CREDIT**

**Q. WHAT IS YOUR UNDERSTANDING OF STAFF'S METHOD FOR CALCULATING THE ENERGY MARGIN?**

A. A very general description of the approach they have taken is that they (a) used the Aurora model to generate market prices (LMPs or Location Marginal Prices) and determine generation output of AEP Ohio units, and (b) used a load forecast with an assumed shopping level to bifurcate generation sales into off-system sales (OSS) and Standard Service Offer (SSO) sales. The revenue for both the OSS and SSO sales using Staff approach are determined by the LMP. The gross margin created on the sales is the difference between the revenue received by the generation resource and the variable/energy cost of that resource. The OSS gross margin for each company is multiplied by that Company's Member Load Ratio (MLR). The SSO gross margin is

not adjusted for the MLR. The sum of the OSS MLR adjusted margin and 100% of the SSO margins are combined to become a retained margin which is converted into the Energy Credit on a $/MW-Day basis. The AEP Ohio "Retained Margin" energy credit is provided to the CRES to reduce their capacity charge. The following diagram shows how the bifurcated margins become the retained margins that are used to calculate the energy credit.

Diagram of Staff's Energy Margin Credit




What is apparent from the diagram and specifically stated in Ms. Medine's testimony is that under Staff's formula, the more that customers shop, the smaller the Energy credit becomes and the higher the capacity charge becomes. This makes the amount of shopping used in Staff's calculation an extremely important assumption. It would also suggest that the energy credit should be adjusted frequently to capture the true level of shopping. If the rate were set at a fixed 26% the Company would clearly not

be adequately compensated since shopping is already at or above this level and is expected to increase substantially as explained in AEP Ohio witness Allen's testimony. Also, classifying some of the margin as "Retail Margin" and providing 100% of that margin to CRES providers effectively increases the MLR from an actual 40% for 2010 to about 92%. Of course, this greatly overstates the amount of margin that AEP Ohio can retain under the FERC approved AEP Pool Agreement and provides a windfall to CRES providers, particularly at the low shopping level assumed by the Staff.

**Q. HOW DOES THE AEP POOL TREAT OSS MARGINS?**

A. Under the Pool all OSS margins are shared among members so that AEP Ohio only retains its MLR share. The Staff's method is flawed because it assigns the margins that would flow to the other Pool members to AEP Ohio. The development of the capacity charge should reflect allocation of only OSS margins associated with energy "freed up" by shopping and should not allocate any margin associated with energy that serves non-shopping customers. The underlying premise of the energy margin credit is that some of AEP Ohio's fixed capacity cost can be recovered through the margin on energy sales to the PJM market since CRES Providers will provide the energy, but not capacity, of the switched load. However, AEP Ohio should not be providing its own retail margins to CRES providers in any event, so this characterization does not hold water. Further, Staff witness Harter stated during cross examination (Tr. IX at 1855-1856) that his intention was to model the actual margins and not a theoretical projection based on hypothetical assumptions. Specifically with respect to application of the AEP Pool, Mr. Harter stated that his modeling was

intended to "reflect the real world operation" of the AEP Pool. (Tr. IX at 1926). But the Staff approach does not reflect operation of the AEP Pool. In the real world operation of the AEP Pool, the "freed-up" energy available to AEP Ohio will be sold into the market. But these sales into the market are no different from any other off-system sale, and the KWh cannot be tagged as AEP Ohio only. Under the FERC-approved AEP Pool, all such OSS margins will be shared on an MLR basis and would not be fully retained by AEP Ohio.

**Q. PLEASE ADDRESS WHETHER THE SHARING OF AEP OHIO'S RETAIL MARGINS UNDER STAFF'S METHOD IS APPROPRIATE.**

A. The retail rates for AEP Ohio's SSO customers are established as part of an ESP and it is inappropriate to confiscate, in whole or in part, non-shopping margins by intermingling them with the margins used to develop the wholesale capacity charge calculation. Funding a capacity charge discount through confiscation of SSO margins also amounts to a subsidy of a competitive service and is inconsistent with Ohio energy policy and basic economic principles of free market competition found in 4928.02.

**Q. HAVE YOU DONE A CALCULATION TO SHOW HOW THE CAPACITY RATE CHANGES DEPENDING UPON THE LEVEL OF SHOPPING USING STAFF'S METHODOLGY?**

A. Yes. The following chart and table show the Staff Energy Credit and Capacity Rate based on various levels of shopping. The first line of the table is the 26% shopping level used by the Staff.

**Table Using Staff Methodolgy**
**With Adjustment to 50%, 75% and 100% Shopping Levels**

| | $/MW-Day | | | |
|---|---|---|---|---|
| Shopping Level | Energy Cr.* | Ancillary Service | Capacity Charge | Net Capacity Charge |
| 26% | (152) | (7) | 305 | 146 |
| 50% | (125) | (7) | 305 | 173 |
| 75% | (96) | (7) | 305 | 202 |
| 100% | (67) | (7) | 305 | 231 |

*Assumes no change in dispatch

While I have used Staff's capacity charge in this table and some that follow, the Company is requesting the Commission's approval of the capacity charge sponsored by Company witness Pearce in his direct testimony in this case.

## COST OF SERVICE JURISDICTION ALLOCATION METHOD

**Q. PLEASE DESCRIBE THE METHOD EMPLOYED AND THE RESULTS OF THE JURISDICTIONAL COST OF SERVICE APPROACH.**

A. The Cost of Service (COS) analysis is akin to the traditional, jurisdictional allocation approach to calculating a rate. This COS study involves first dividing the total Staff generation into the following categories: Traditional OSS, OSS due to Customer Switching[1], Non-Shopped Load and Wheeling Power Load. The Staff's total Gross Margin is divided into the same categories. Then the OSS Margin is multiplied by the shopping percent used in the particular scenario and the MLR. The OSS due to Customer Switching is multiplied by the MLR. The two components of the MLR are added together and the result is divided by the CRES PLC and the days in the period.

[1] Under the Pool, all OSS margins are divided among the members by MLR share. In this testimony, I may refer to two types of OSS margins for convenience and clarity of the discussion.

This same process is used for each of the switching scenarios (26% - Staff, 50%, 75%, and 100%).This could be considered the most appropriate, if customer shopping was static. The results of this analysis are in the table below, which also includes Ancillary Services and Staff witness Smith's capacity rate.

**Table Using COS Methodolgy**
**At 26%, 50%, 75% and 100% Shopping Levels**

| | $/MW-Day | | | |
|---|---|---|---|---|
| Shopping Level | Energy Cr.* | Ancillary Service | Capacity Charge | Net Capacity Charge |
| 26% | (23) | (7) | 305 | 275 |
| 50% | (47) | (7) | 305 | 251 |
| 75% | (59) | (7) | 305 | 239 |
| 100% | (65) | (7) | 305 | 233 |

*Assumes no change in dispatch

## THE AVERAGE RATE METHOD

**Q. PLEASE DESCRIBE THE AVERAGE RATE METHOD OF CALCULATING THE ENERGY MARGIN CREDIT?**

A. It is a fairly straight forward concept, that is based on the premise that the energy credit should be the same across all levels of shopping. In the development of the average rate there is generally no need to put the generation into buckets, since the underlying assumption is that it treats all the retail load the same. Of course, each kwh that is sold into the PJM market as an OSS sale has to be shared with other members of the Pool using the MLR. Therefore, the MLR is applied to the total generation gross margins not a selected subset. This methodology is consistent with the FERC- approved AEP Pool Agreement and has the advantage of being stable across all levels of shopping as shown in the table below:

| Shopping Level | Total Gross Margin | Gross Margin Attrib. to Cust. Shopping | MLR | Retained Margin Attrib. to Cust. Shopping | Total PLC MW | PLC of Shopped Load - MW | Total Days in Period | ($/MW-day) Energy Cr. Margin Allocated Across Shopped Load |
|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3)=(1)x(2) | (4) | (5)=(3)x(4) | (5) | (6)=(1)x(5) | (7) | (8)=(5)/[(6)x(7)] |
| 1% | $1,648,708,378 | $16,487,084 | 40% | $6,594,834 | 9,061 | 91 | 1,095 | $66.47 |
| 26% | $1,648,708,378 | $428,664,178 | 40% | $171,465,671 | 9,061 | 2,356 | 1,095 | $66.47 |
| 50% | $1,648,708,378 | $824,354,189 | 40% | $329,741,676 | 9,061 | 4,531 | 1,095 | $66.47 |
| 75% | $1,648,708,378 | $1,236,531,284 | 40% | $494,612,513 | 9,061 | 6,796 | 1,095 | $66.47 |
| 100% | $1,648,708,378 | $1,648,708,378 | 40% | $659,483,351 | 9,061 | 9,061 | 1,095 | $66.47 |

Source

(2) Exhibit ESM-1 Energy Credit Merged Table, "Gross Margin" Column, Total June 2012 - May 2015

(4) Exhibit ESM-1 Merged Table "MLR" Column

(5) Exhibit ESM-1 Merged CP-5 (MW)

(7) Equals days in three-year period 6/1/12 - 5/31/15 (3 x 365)

**Q. WOULD YOU PLEASE PROVIDE THE NET STAFF CAPACITY CHARGE IF YOU USE THE AVERAGE ENERGY MARGIN CREDIT AS DETERMINED ABOVE?**

A. Yes, the following table shows it in the same format as provided for the other two methods:

**Table Using Average Rate Methodolgy**
**At 26%, 50%, 75% and 100% Shopping Levels**

| | $/MW-Day | | | |
|---|---|---|---|---|
| Shopping Level | Energy Cr.* | Ancillary Service | Capacity Charge | Net Capacity Charge |
| 26% | (66) | (7) | 305 | 232 |
| 50% | (66) | (7) | 305 | 232 |
| 75% | (66) | (7) | 305 | 232 |
| 100% | (66) | (7) | 305 | 232 |

*Assumes no change in dispatch

**Q. ARE YOU RECOMMENDING THE ADOPTION OF THE STAFF ENERGY MARGIN IF IT IS DONE BASED ON THE AVERAGE RATE METHODOLOGY?**

A. No. I am only suggesting changes to fix the methodology. Company witnesses Allen and Meehan demonstrate that Staff's energy margins are overstated for other reasons.

**AMOS, MITCHELL AND NO-POOL SCENARIOS**

**Q. DIDN'T MR. HARTER STATE THAT HIS ANALYSIS REMOVED THE AMOS AND MITCHELL UNITS THAT WILL BE TRANSFERRED UPON CORPORATE SEPARATION AND THEREFORE HIS ANALYSIS WAS POST TERMINATION OF THE AEP POOL?**

A. Yes, on cross examination he made such a claim (Tr. IX at 1783, 1788). However, his schedule and Mr. Smith's calculation do not support that concept. Mr. Smith is reflecting the AEP Pool in his fixed capacity rate and Mr. Harter is using the MLR in his Exhibit albeit in a very limited and incorrect fashion. These are calculations that would be relevant while the AEP Pool is still in operation and therefore, the results of his analysis is not consistent with his stated intention of modeling the real world operation of the AEP Pool.

**Q. HOW WOULD YOU DESCRIBE OR CATEGORIZE STAFF'S CALCULATION?**

A. It can only be described as a hybrid. Staff witness Smith is clearly in the AEP Pool world since he uses the 2010 data including the very large Pool Capacity credit described earlier. Mr. Smith's acceptance of the Pool capacity credit resulted in an offset to the demand charge of $125/MW-Day. Staff witnesses Harter and Medine

have not modeled a true Pool scenario or non-Pool scenario. The Aurora model or any off the shelf model will not model Pool energy flows like primary energy that is a very significant transaction among pool members. In 2010 AEP Ohio had net primary sales of about 7,000 GWh. Primary transactions are at cost and produce no margins for AEP Ohio. At AEP we have a program that calculates the Pool flows after the forecast models such as Promod have been run. It is unclear to me how Pool energy flows would have affected the energy margin results of Staff since they have removed the AEP Ohio's share of the Amos and Mitchell plants and AEP Ohio would be less long of energy than in the past, but there would no doubt be some primary energy transactions between AEP Ohio and the other Pool members. Since the Company used actual 2010 margins, all the Pool transactions would be reflected in its analysis. Also, it is clear that the Staff did not treat Wheeling Power correctly in their calculations since Staff witness Harter described Wheeling incorrectly as either a Pool member or market-based wholesale contract. Wheeling is a full requirements affiliate cost based wholesale contract. It is the Company's plan to merge Wheeling into Appalachian Power Company when the AEP Pool is terminated. The Staff did use an MLR in their analysis which is a Pool component, however, as discussed in detail earlier, the MLR or jurisdictional allocations were not executed by the Staff properly.

**Q. DID YOU PROVIDE COMPANY WITNESS MEEHAN GENERATION COST DATA BY UNIT FOR HIS CALCULATIONS OF THE ENERGY MARGIN CREDIT?**

A. Yes, I provided him detailed cost information for all of AEP Ohio's generating units. This information is the same information that is currently being used for AEP's financial forecasts and represents the best information available.

**Q. HAS COMPANY WITNESS MEEHAN PROVIDED YOU HIS ENERGY MARGIN CREDIT TO BE COMPARED TO STAFF'S ENERGY MARGIN CREDIT.**

A. Yes. Because Company witness Meehan did not do any adjustment for the AEP Pool, I adjust the Staff's Energy Margin credit to be on a comparable basis, by using their Gross Margin, not the Retained Margin in determining the Energy Margin credit. This produces a credit for the Staff of $166.17/MW-Day. Mr. Meehan has calculated three different Energy Margin credits as follows:

| | |
|---|---|
| **All AEP Ohio Resources** | $ 73.24 |
| **All AEP Ohio Resources Excluding Amos and Mitchell** | $ 64.18 |
| **All AEP Ohio Resources Included in EVA Final Analysis** | $ 58.11 |

The first includes AEP Ohio's Amos unit 3 and the Mitchell units, so it is not comparable to the Staff's credit. The second Energy Margin credit includes additionally resources that Staff did not model. The third Energy Margin credit uses the same resources as the Staff.

**Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

A. Yes it does.

## CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of Ohio Power Company's Pre-filed Rebuttal Testimony of Philip J. Nelson have been served upon the below-named counsel and Attorney Examiners by electronic mail to all Parties this 11th day of May, 2012.

/s/ Steven T. Nourse
Steven T. Nourse

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