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

POST-HEARING BRIEF OF THE OHIO HOSPITAL ASSOCIATION

I. INTRODUCTION AND BACKGROUND

On January 27, 2011, Columbus Southern Power Company and Ohio Power Company (collectively "AEP Ohio" or "Company") filed an application for an electric security plan ("ESP") set to begin on January 1, 2012. On September 7, 2011, twenty-two (22) signatory parties, including the Ohio Hospital Association ("OHA"), filed a Joint Stipulation and Recommendation ("Joint Stipulation") with the Public Utilities Commission of Ohio ("Commission") seeking approval of an ESP that would transition AEP Ohio to a fully competitive market-based structure to obtain electric supply, by divesting its generating assets.

On December 14, 2011, the Commission adopted the September 7, 2011 Stipulation, with several modifications. However, on February 23, 2012, the Commission reversed its December 14, 2011 decision and rejected the settlement, thereby requiring AEP Ohio to submit a new filing. As such, on March 30, 2012, AEP Ohio filed its modified ESP proposal and supporting testimony.

AEP Ohio's modified ESP proposal caused additional interventions thereby resulting in 56 intervenors with over 67 witnesses who prefiled testimony. The hearing lasted 17 days between May 17, 2012 and June 15, 2012, with almost 5,000 pages of transcript. Based upon the sheer number of intervenors and expert witnesses in addition to the voluminous transcripts, one could easily become overwhelmed trying to make sense of the information contained in this record. For its part, the OHA will keep its position simple: With one notable exception, the OHA supports the position taken by the Commission Staff in this case. The only exception to this position comes with respect to AEP's Rider DIR: The OHA supports the adoption of that rider as requested by the Company.

OHA is a private, nonprofit trade association with 167 hospitals and 19 healthcare system members that have more than 700 electricity accounts statewide. More than 350,000 Ohioans work for or at those hospitals and healthcare systems. OHA's mission is to be a membership-driven organization that provides proactive leadership to create an environment in which Ohio hospitals are successful in serving their communities. The approximately 54 hospitals receiving electricity from AEP Ohio are OHA members and consume significant amounts of electrical energy, relying on their host electric distribution utilities of the AEP Companies to deliver the electric power necessary to provide patient care. Every hospital, or virtually every hospital, in AEP Ohio's service area is a member of OHA.

The OHA's member hospitals are vitally dependent on high-quality, reliable electric service for their essential community functions. As a consequence of the importance of the services provided by AEP Ohio to the OHA's membership, the OHA supports an outcome in this proceeding that will serve to ensure that AEP Ohio receives revenues sufficient to allow it to continue to provide its essential services to the hospitals within its territory. The OHA

recognizes the need for and value of a strong AEP Ohio. AEP Ohio has long been a strong supporter of the OHA's members within its territories and a provider of private health insurance to its significant Ohio work force. The OHA is keenly interested in enabling AEP Ohio to continue its important civic role.

II. ARGUMENT

The core of this case comes down to the level of revenues that the ESP rates set herein will produce for AEP Ohio. This question is, in turn, mainly impacted by the outcome of Case No. 10-2929-EL-UNC and the state-determined rates for wholesale capacity that AEP Ohio will be allowed to charge to CRES providers, and by implication, SSO customers through the rates that wholesale capacity charge produces when applied to the ESP rates set herein. The OHA understands that the level of appropriate wholesale capacity charges is to be decided by the Commission in Case No. 10-2929-EL-UNC. However, in light of the impact of that determination on the structure of the ESP to be decided in this case, it is impossible to take a perfectly clear position without also re-urging the outcome in that case, as well.

The second—and closely related—factor weighing on the question of the revenues to be generated by this ESP is the appropriateness of the Rate Stability Rider ("RSR") requested by the Company. The RSR is designed to help ensure that the Company earns a target level of non-fuel generation revenues sufficient to produce a 10.5% return on equity (as calculated in 2011) (OPCo Ex. 151 p. 2). The targeted level of revenues is $929 million over the three annual periods set forth in Company Witness Allen's Exhibit WAA-6 (OPCo Exhibit 116). The reasonableness of the Company's requested revenue target is, however, dependent upon the key assumptions of 1) the appropriate level of capacity charges to be determined in Case No. 10-

2929-EL-UNC; and 2) the closely related question of the revenues that will be produced by the Company's generation assets over the life of this ESP.

The OHA generally supports the Staff position in this case insofar as the Staff continues to recommend to the Commission that AEP Ohio should continue to charge CRES providers the prevailing RPM rate in the unconstrained region of PJM15 (Staff Ex. 101 at p. 10; TR Vol. VIII at p. 2407). The Staff position, again consistent with its position in Case No. 10-2929-EL-UNC, provides a fallback, adjusted cost-based capacity rate of $146.41/MWD (Staff Ex. 101 at p.10, TR Vol. VIII at p. 2405). While the OHA believes that the prevailing RPM price should be the outcome determined by the Commission in Case No. 10-2929-EL-UNC, the Commission should not, in any event, determine a capacity rate greater than Staff's proposed cost-base rate of $146.41/MWD.

With respect to the RSR, while it does not disagree with the principle of the RSR, the Staff maintains that its use would be appropriate only in that instance where AEP Ohio is not collecting the capacity charges that the Commission has determined to be compensatory to AEP. In other words, if AEP Ohio is collecting the full amount of the revenues determined to be compensatory by the Commission in Case No. 10-2929-EL-UNC, then there would be no need or basis for AEP Ohio to also collect revenues through the RSR (TR Vol. XVI at pp. 4557-4558). Thus, if the Commission does abandon the prevailing RPM capacity rate in favor of the Staff's cost-based number of $146.74/MWD, then there will be no need to reflect any capacity costs in the RSR. While the Staff did not make it explicit, presumably if the Commission does find that the prevailing RPM rate should apply, then Rider RSR would collect the difference between the prevailing RPM rate and the Staff's cost-based capacity figure. The OHA is willing to abide by the outcome, but only if the Commission finds that the Staff's cost-based rate applies.

The OHA is willing to support this outcome despite the fact that the prevailing RPM rate is unquestionably just and reasonable as it is the product of a process blessed by the FERC (TR Vol. VIII, p. 2397) because the OHA, like the Commission, appreciates the importance of ensuring that the Company remains financially stable and healthy so that it may continue to provide its essential electric services to the OHA's member hospitals -- and it is better to err on the side of caution, rather than to have to address some later financial emergency. The Commission should bear in mind that AEP Ohio's earnings have been beyond healthy for a considerable period of time and the rate payers do not seem to receive recognition for their contribution to that performance.

The OHA additionally voices its opposition to any consideration of AEP Ohio's proposed 2-tiered capacity pricing scheme. Both the Tier 1 number and Tier 2 number, as selected by AEP Ohio are arbitrary in the extreme. The Tier 1 number reflects a now-outdated RPM-based rate, and the Tier 2 number was the product of a now-non-existent settlement agreement, and to the extent that commercial class customers who had not shopped prior to the announcement of the tiered structure in the prior phase of this proceeding never had any opportunity to avail themselves of the "discounted" capacity, the entire scheme is unfair and should be rejected by the Commission.

III. IMPACT ON HOSPITALS

The OHA presented the testimony of Reed Fraley, its Senior Vice President and former CEO of the Ohio State University Heath System, in addition to employment earlier in his career as CEO or senior administrator of other major healthcare systems. Mr. Fraley offered to the Commission the simple but critically important perspective of the hospitals operating in AEP's service territory (OHA Ex. 101). The purpose of Mr. Fraley's testimony was to alert the

Commission to the financial reality facing most of the hospitals in AEP's service territories, and throughout Ohio.

Mr. Fraley testified that, at best, hospital revenue streams will remain static for the foreseeable future (*Id.* at p. 3). And to the extent that a hospital is dependent upon Medicare or Medicaid reimbursements for their operating revenues (which tend to be hospitals in predominantly rural areas) then those facilities can reasonably expect revenues to decrease over the next 36 months, based upon current federal law (*Id.*). Mr. Fraley pointed out that Ohio likely does not have the means to increase its share of the burden for these programs, so the reasonable expectation is that payments will decrease for the same level of service (*Id.*).

The consequence of this financial situation is that when a hospital's costs increase, that increase must be paid for by a corresponding decrease in other expenditures (*Id.*). While this is simply a cold economic fact not peculiar to hospitals, the Commission should understand that the health care industry has been in this situation for several years now and, consequently, the "easy" reductions in operating expenses have already been made. Hospital administrators now have to decide what cuts to make in the delivery of health care services to their communities. The hard math looks like this to an administrator: Every cost increase reduces the capital budget for a new piece of therapeutic equipment used to deliver health care services by a like amount (*Id.*). Or in a more extreme case, a $75,000 cost increase equals one registered nurse who is no longer available to care for patients (*Id.*).

A concrete example of this decision-making process is the reduction in maternity wards around the state. In 2004, there were 127 licensed maternity services licensed by the Ohio Department of Health. Today, that number stands at 114 (*Id.*) (see,

http://publicapps.odh.ohio.gov/eid/Search_Results.aspx). The type of rate increase proposed by AEP Ohio could contribute to accelerating these kinds of difficult patient care decisions.

The point of Mr. Fraley's testimony is that given the current financial realities faced by hospitals, the consequences of the increasing costs of that electric service are going to threaten the level or scope of services that hospitals are able to deliver to the citizens of Ohio. The OHA urges the Commission to bear this reality in mind as it decides the outcome of this proceeding.

IV. CONCLUSION

For the reasons stated above, OHAs request that this Commission adopt the positions of OHA on the issues set forth above.

Respectfully submitted on behalf of
THE OHIO HOSPITAL ASSOCIATION

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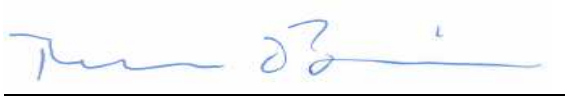
CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served upon the following parties of record via electronic mail this 29th day of June 2012.



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