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July 28, 2008

Public Utilities Commission of Ohio
PUCO Docketing
180 E. Broad Street, 10th Floor
Columbus, Ohio 43215

In re: Case No. 08-883-EL-AEC

Dear Sir/Madam:

Please find enclosed an original and twelve (12) copies of the OHIO ENERGY GROUP'S MOTION TO INTERVENE AND MEMORANDUM IN SUPPORT to be filed in the above-referenced matter.

Copies have been served on all parties on the attached certificate of service. Please place this document of file.

Respectfully yours,

David F. Boehm, Esq.
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

DFBkew
Encl.
Cc: Chairman Alan R. Schriber
Ronda Hartman Fergus
Valerie A. Lemmie
Paul A. Centolella
Cheryl Roberto

CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served by electronic mail (when available) and regular mail, this 28th day of July, 2008 to the following:

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David F. Boehm, Esq.
Michael L. Kurtz, Esq.

BEFORE THE
PUBLIC UTILITY COMMISSION OF OHIO

In The Matter Of The Application For Approval Of A Contract For Electric Service Between Of Columbus Southern Power Company And Solsil, Inc.	: : : :	**Case No. 08-883-EL-AEC**

MOTION TO INTERVENE OF THE THE OHIO ENERGY GROUP

Pursuant to the Ohio Rev. Code §4903.22.1 and Ohio Admin. Code §4901-1-11, the Ohio Energy Group ("OEG") moves for leave to intervene in this proceeding. The Public Utility Commission of Ohio ("Commission") should grant OEG leave to intervene because OEG has a real and substantial interest in the proceeding, and the Commission's disposition of this proceeding may impair or impede OEG's ability to protect that interest.

OEG has no objection to granting Solsil an economic development contract which is a discount from the otherwise applicable tariff. But we do object to an economic development contract which is a discount to market. The structure of this contract needlessly requires the ratepayers of Columbus Southern Power (CSP) to subsidize AEP's shareholders and to subsidize the ratepayers of other states served by CSP's affiliates. A discount to the tariff could give Solsil the same generation rate it was promised, but at a much lower cost to CSP ratepayers.

Respectfully submitted,

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July 28, 2008

COUNSEL FOR THE OHIO ENERGY GROUP

BEFORE THE
PUBLIC UTILITY COMMISSION OF OHIO

In The Matter Of The Application For Approval Of A Contract For Electric Service Between Of Columbus Southern Power Company And Solsil, Inc.	:	**Case No. 08-883-EL-AEC**

MEMORANDUM IN SUPPORT OF
THE OHIO ENERGY GROUP'S
MOTION TO INTERVENE

Pursuant to Ohio Rev. Code §4903.22.1 and Ohio Admin. Code §4901-1-11, the Ohio Energy Group (OEG)[1] files this Memorandum in Support of Motion to Intervene.

On July 15, 2008 Columbus Southern Power Company (CSP) filed an application for the approval of a ten-year special contract with Solsil, Inc. Instead of providing Solsil an economic incentive rate by discounting its otherwise applicable low-cost tariff, CSP proposes to purchase high priced market power from third parties to serve the Solsil load, but only charge Solsil 40% of the market price. The remaining 60% is proposed to be recovered from all other CSP customers through a rate increase rider. CSP has not attempted to estimate the amount of the rate increase that would result from this contract. At the contract capacity of 19,500 Kva, a 70% load factor, and a market price of $72/MWH, we estimate the annual rate increase to be approximately $5.2 million, or $52 million over the ten-year contract term. (19.5 MW x 8,760 x 0.7 x $72 x 0.6).

CSP is a public utility as defined by §4905.02 of the Ohio Revised Code, is subject to regulation by this Commission, and is obligated to serve all consumers located in its service territory at rates on file with the PUCO. This obligation to provide a standard service offer at tariff rates includes new customers such as Solsil.

[1] The members of OEG who take service from Columbus Southern Power Company are: AK Steel Corporation, ArcelorMittal, Brush Wellman, Ford Motor Company, GE Aviation, Griffin Wheel, The Procter & Gamble Co., PPG Industries, Inc., Republic Engineered Products, Inc., Wheeling-Pittsburgh Steel Corporation and Worthington Industries.

To meet its service obligations under Ohio law, CSP owns its own generation and CSP also has first call on thousands of megawatts of surplus capacity and associated energy at cost-based pricing under the terms of the AEP-East Interconnection Agreement. AEP Pool Power that is not used to serve the retail load of the AEP-East operating companies (CSP, Ohio Power, Appalachian Power, Kentucky Power and Indiana-Michigan Power) is sold off-system at market prices. Profits (net revenues) from off-system sales are allocated among the AEP-East operating companies according to their Member Load Ratio (basically, the size of each operating company relative to the Pool total). For the twelve months ending January 2008, the AEP-East operating companies received approximately $750,000,000 in off-system sales profits. With an MLR of approximately 18.4%, CSP's share was $138,000,000. With an MLR of approximately 24.4%, Ohio Power's share was $183,000,000.

Understanding the AEP Interconnection Agreement is necessary to understand AEP's options. If CSP serves Solsil at a tariff rate (discounted or not), then there is less Pool Power available for high priced off-system sales. But if Solsil is served by third party suppliers at market rates (Solsil pays 40% and all other CSP ratepayers pay the remaining 60%), then AEP Pool Power is freed up to make lucrative off-system sales where AEP shareholders keep most of the profit. A perfect scheme for everyone except CSP ratepayers. Here is how AEP described the Interconnection Agreement to FERC:

> *"The AEP-East Interconnection Agreement, originally entered into on July 6, 1951, is an agreement among the AEP-East Operating Companies, under which the individual generation resources of the participating companies ("Members") are dispatched on a single-system basis, and the costs and benefits of generation resources are shared on a system-wide basis.*
>
> *The agreement provides for meeting system energy requirements on a least-cost basis from among available resources. AEPSC, acting as Agent for the Members, dispatches energy on an economic basis, assigning the highest incremental cost to off-system sales. Each Member meets its requirements initially out of its own generation to the extent dispatched, and thereafter through primary purchases from affiliates. The Interconnection Agreement prices such purchases at the delivering Member's average cost of generation for the month.*
>
> *Revenues from off-systems sales are initially allocated to the Member providing the generation dispatched for each sale up to the amount of its generation costs for the sale. Above that point, the Members share net revenues from such sales on the basis of the Member Load Ratio ("MLR") - the ratio of each member's Non-Coincident Peak ("NCP") load over the latest twelve-month period to the sum of NCP loads for all Members over the same period. Likewise, the Agent makes energy purchases on a system basis and*

apportions the cost by MLR to Members." July 24, 2001 Application of American Electric Power at 8-9, FERC Docket No. ER01-2668-000.

The motivation of CSP in the Solsil contract is to preserve low cost AEP Pool Power for high profit off-system sales, rather than selling to Solsil at the standard PUCO-approved tariff rate (or a discounted tariff rate). This plan to preserve generation for off-system sales will benefit AEP's shareholders in varying degrees depending on the regulatory treatment in the seven states served by the AEP-East operating companies. For example, in Ohio, CSP's and Ohio Power's MLR share of profits from off-system sales is currently retained fully by shareholders. That will change under the excessive earnings test of SB 221 since profits from off-system sales will increase each utility's earnings. In Kentucky, profits from off-system sales above a baseline are shared between shareholders and ratepayers. In West Virginia, profits from off-system sales are flowed through 100% to West Virginia ratepayers through the monthly ENEC clause.

Therefore, while the Solsil contract would increase costs for CSP's Ohio ratepayers by approximately \$52 million, it will lower the cost of power for West Virginia's ratepayers by increasing the off-system sales profits available to Appalachian Power. This result is flatly inconsistent with the economic development goals underlying this contract. Having CSP ratepayers subsidize Solsil is one thing. Having CSP ratepayers subsidize AEP's shareholders and the ratepayers of other states is quite another.

From the perspective of CSP ratepayers and the economy of Ohio, this contact is terribly flawed. Solsil could get the same electric rate by discounting the tariff, rather than discounting the market price by 60%. A simple example demonstrates this. If market prices are assumed to be \$100/MWH, then the generation rate to Solsil would be \$40/MWH and all other CSP ratepayers would pay the \$60/MWH subsidy. If it is further assumed that the otherwise applicable CSP tariff rate for generation is \$50/MWH, then only a \$10/MWH subsidy is needed to give Solsil the same rate. A discounted tariff could give Solsil exactly what it was promised, and this would be better for all other CSP customers and better for the Ohio economy.

The Commission's legal authority to require this result should not be in question. As long as CSP gets the rate it is legally entitled to – the full tariff rate – through the recovery of delta revenue, then CSP is made whole and it has no valid basis to object.

For the reasons set forth above, this contract should be rejected. In its place, Solsil should be awarded an equivalent economic development contract which is a discount from the otherwise applicable tariff.

Respectfully submitted,

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July 28, 2008

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