FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company for Approval of its Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Assets	)	Case No. 08-917-EL-SSO
In the Matter of the Application of Ohio Power Company for Approval of its Electric Security Plan; and an Amendment to its Corporate Separation Plan	)	Case No. 08-918-EL-SSO

Prepared Testimony
of
Gregory C. Scheck
Policy and Market Analysis Division
Public Utilities Commission of Ohio

Staff Exhibit _______

November 10, 2008

1. Q. Please state your name, employer and business address.

A. My name is Gregory C. Scheck. I am employed by the Public Utilities Commission of Ohio, 180 East Broad Street, Columbus, Ohio 43266-0573.

2. Q. What is your current position at the Commission?

A. I am a Utilities Specialist in the Policy and Market Analysis Division of the Energy and Environment Department. I am responsible for analyzing issues and providing recommendations pertaining to demand forecasting, demand side management, energy efficiency, demand reductions, and advanced metering infrastructure.

3. Q. What are your qualifications as they relate to your testimony in this proceeding?

A. I have worked at the Commission since 1985 in various capacities. Most of that time I have spent reviewing and evaluating demand forecasts, demand side management applications, and advanced metering issues.

4. Q. What is the purpose of your testimony in this proceeding?

A. I will address the Applicants' ESP filing with respect to its proposed AMI Phase 1 Smartgrid deployment and the energy efficiency programs to meet the companies' annual energy efficiency and peak demand reduction targets.

AMI Phase 1

5. Q. What is your knowledge or understanding of the companies' proposed Smartgrid plan?

A. The Applicants plan to deploy a multi-year Smartgrid, known as gridSmart over a seven to ten year period. The initial part of this deployment is characterized as Phase 1 of the project which will constitute an advanced meter rollout for approximately 110,000 customers in the northeast quadrant of central Ohio over the ESP period. The Staff agrees with the companies that there will be a great deal of experience gained with this initial deployment.

6. Q. What are the expected costs of deployment for the companies' proposed AMI Phase 1?

A. Based on the companies' estimated costs put forward in company witness Ms. Slonecker's testimony, Phase 1 deployment will be approximately $109 million. These costs will include three components: 1) advanced meters, 2) distribution automation, and 3) a Home Area Network (HAN). I will be responding to only two of these components, the advanced meters and the home area network or HAN.

7. Q. What portion of the gridSmart costs are associated with advanced metering?

A. The companies have estimated costs for the Phase 1 advanced meters at approximately $46 million which also includes the telecommunications, information technology infrastructure and O&M costs associated with the advanced meters. The direct meter costs including the overhead are approximately $36.5 million which is roughly equivalent to $333 per endpoint.

8. Q. Do you consider these costs to be reasonable?

A. Yes, but they would be on the higher end of reasonableness. Staff is somewhat concerned about the level of overhead costs associated with the meter acquisition at 48% of the meter costs. The Staff would recommend that those costs associated with the overhead of meter purchasing be reviewed before approval to insure that they are not duplicative of the overhead meter purchasing costs that are already part of the companies' current rate recovery.

9. Q. What costs are associated with the Home Area Network (HAN)?

A. According to company witness Ms. Slonecker, the total costs associated with the Home Area Network are expected to be approximately $14.5 million. Again, the Staff is as concerned with the percentage of overhead costs associated with purchasing the Home Area Network equipment as with the advanced meters.

10. Q. Presently, do you have any concerns with respect to the companies' AMI pilot program?

A. Yes. As company witness Ms. Slonecker has stated, the companies' are expecting to expend $109.7 million for the gridSMART Phase 1 investment. But the estimated operational savings for the first three years is expected to be only about $2.7 million. The net difference is approximately $108.9 million. From the Staff's perspective, the relative amount of operational savings is quite small compared to the amount of expenditures for the Smartgrid initiative over the ESP period.

11. Q. How do the Companies plan to recover the gridSMART estimated net costs ?

A. Company witness Mr. David Roush calculated a gridSMART cost recovery rquest for CSP over the ESP period of approximately $64.5 million as a part of the overall distribution rate in his direct testimony (Exhibit DMR-4). The remainder of the capital costs will be recovered over the expected lifetime of the captial investment, which will vary anywhere from 5 to 30 years depending on the equipment life. The total phase 1 gredSMART capital costs, including carrying charges, is expected to be approximately $134.1 million.

12. Q. Why is the Staff making a point about the costs associated with the Company's phase 1 gridSMART deployment?

A The main point the Staff is making with respect to the gridSMART Phase 1 costs relate to the minimal risks the companies are undertaking with this investment relative to the minimal potential gain for ratepayers.

13. Q. What would you recommend the Commission do with respect to the companies' Phase 1 gridSMART?

A. I would recommend that the companies' proposed Phase 1 gridSMART investment be pulled out of the general distribution rates and be set aside in a separate rider, set at $0.00 dollars, until a further, more detailed investigation can be completed. Based on company witness Ms. Sloneker, the companies did not attempt to quantify any customer or societal benefit with respect to its smartGRID analysis. Without any customer or societal benefits associated with the companies' smartGRID analysis, it is not clear whether the companies truly want to assist customers in to make wiser energy choices. In the event that the Commission recommends the companies go forward with its Phase 1 gridSMART proposal, the Staff would recommend that there should be an annual cost and performance review of this initiative.

14. Q. Are there any other issues that you have with the companies' Phase 1 gridSMART initiative?

A. Yes, according to company witness Ms. Sloneker's response to Staff's Data Request 5-11, the companies have not determined the specific tariff and rate provisions that it will offer once the enabling gridSMART technology is in place. The problem with this approach is that customers who have already received the enabling smartgrid technology, will likely have to wait until the companies have fully deployed its Phase 1 before being able to take advantage of any time-differentiated rate or other dynamic pricing opportunities. By delaying the offering of time-differentiated rates and other forms of dynamic pricing, customers would not likely be able to avail themselves of many of the benefits associated with the companies' smartgrid investment they are paying for. I would recommend that the companies offer some form of a Critical Peak Pricing Rebate for residential customers, and offer some form of a hedged price for commercail customers, for a fixed amount of the customers demand. The residual demand could be tied to a day-ahead market-based price. In this way, customers would know in advance that they would pay a fixed amount for a portion of their consumption, but could pay more or less depending what they did on the margin.

In addition, the Companies intend to deploy a Home Area Network only to those that have central air conditioning and elect to participate in tariff offerings that require the use of a programmable communicating thermostat. Staff does not see the need for this restriction. Rather, if it is technically feasible, any customer who would like to have a programmable communicating thermostat to control other electrical end-use appliances should be able to have one.

Energy Efficiency and Peak Demand Reductions

15. Q What is your opinion of AEP's proposed DSM/Enegy Efficiency Programs?.

A. Staff approves of the companies' efforts to accelerate the deployment of their proposed DSM/Energy Efficiency programs to meet the companies' overall annual energy efficiency and peak demand reduction targets as put forth in SB 221. However, based on the initial cost analysis relative to the benefits provided in company witness Ms. Slonecker's testimony, it appears that a number of the programs are quite expensive and may not even pass the Total Resource Cost Test as specified in the California Standard Practice Manual, 2002. It is likely not prudent for the companies to spend a great deal of money on energy efficiency and peak demand reduction programs that are deemed not to be cost-effective before even deploying them. The Staff would therefore strongly recommend that the companies preliminarily evaluate and aggressively pursue those measures and programs that are most cost-effective first with respect to the Total Resource Cost Test and, secondarily, the Ratepayer Impact Measure Test. Even though the companies have aggressive benchmarks to meet, it would more prudent to pursue those measures and programs that are more cost-effective with respect to avoiding supply alternatives (i.e. generation, transmission and distribution future investments) than those measures and programs that are not. The Staff approves of the companies conducting a Market Potential Study which should help direct the companies and the collaborative's efforts in this area.

16. Q. The companies have stated that they are evaluating opportunities to improve the energy efficiency of their generating, transmission, and distribution facilities in terms of meeting its energy efficiency and peak demand benchmarks. Do you have an opinion with respect to incorporating thse efficiency improvements to be credited towards the companies annual benchmarks?

A. Yes, to the extent that such improvements can be demonstrated to bring benefits Ohio's electric retail customers, the Staff could certainly consider crediting the companies for these type of investments. However, in the case of generation investments, the benefits may or may not accrue to Ohio's retail customers, therefore making it questionable to give such investments credit towards meeting the companies' annual benchmarks.

17. Q. The companies put forward four different economic growth adjustments in determining the companies' three year average of baseline energy sales and peak demand for the calendar years 2006 through 2008. The three year average baseline determinations are used as the starting point to determine each companies' annual benchmarks for energy efficiency and peak demand reductions for calendar year 2009. Do you agree with Mr. Baker's recommended adjustments to the companies' baselines?

A. Not entirely. Mr. Baker would like for the companies to be able to take an adjustment credit for the sales and peak load associated with the acquisition of the former Monongahela Power Company's service territory by Columbus Southern Power. While it may be construed that this acquisition may have had some economic issues associated with it, this acquisition was not economic development in the true sense in that this particular customer load would have not been retained because of some inaction by the company. Rather CSP was responding to a request to help those customers in that part of the state that were being served electricity by another party. If CSP did not serve them it is highly unlikely that no one else would have. In addition, CSP acquired this load outside of the three year average for determining the baselines; (i.e. before calendar year 2006) and, therefore, would not be considered a reasonable adjustment by the Staff.

18. Q. What about the other adjustments that Mr. Baker has recommended?

A. The Staff would have to consider whether the other adjustments occurred during the baseline period (calendar years 2006 through 2008). In addition, the Staff would have to evaluate whether such adjustments were due to economic development efforts made by the Companies such as the Ormet and Hannibal Real Estate LLC. Loads.

19. Q. Has the Staff determined a preliminary estimate of the KWh savings and peak demand reductions that should be achieved by the companies for the calendar year 2009?

A. Yes. According to Ohio Rev. Code § 4928.66 (2008), electric distribution utilities under the jurisdiction of this Commission are required to implement energy efficiency programs that will achieve energy savings equivalent to at least .3 of one percent of the Companies' total annual average normalized kilowatt hour sales for the preceding three years to their customers in this state for the calendar year 2009. In addition, each electric distribution utility must implement peak demand reduction programs designed to achieve a 1 percent reduction in the Companies' peak demand for the calendar year 2009. The baseline for energy savings is determined from the average total kilowatt hours the electric distribution utility sold in the preceding three calendar years, while the baseline for the peak demand reduction is determined from the average peak demand on the utility in the preceding three years.

According to the companies' energy sales for the AEP-Ohio Service territories in Ohio for the calendar years 2006 through 2008 the Staff has developed the estimates in for the three year average of sales and peak load to retail end use customers, (see Total End-Use Delivery, Column 6, PUCO Forms FE4-D1 and EDU System Seasonal Demand Forecast, Summer, PUCO Forms FE4-D4, Columbus Southern Power and Ohio Power Companies 2008 Long-Term Forecast Report). Those estimates are contained in Exhibit GCS-1 and Exhibit GCS-2. The historical sales and peak data have not been weather normalized, but it is unlikely that the weather normalized historical data will alter the sales and peak demand values substantially. The Attachments provide an estimate of the energy and peak demand reduction benchmarks that the companies must meet for calendar year 2009.

20. Q. What is the Staff's view with respect to including the energy savings and peak demand reductions from mercantile customers that commit their demand response or other customer-sited capabilities existing or new for integration into the electric distribution utility's demand-response, energy efficiency, or peak demand reduction programs?

A. The Staff is not opposed to including the energy savings and peak demand reduction efforts from mercantile customers toward adjusting the electric utility's baseline. However, in order for such efforts to count the Staff recommends that the electric distribution utilities make a case-by-case submittal to the Commission to receive such credits. In addition, the mercantile customers demand response, energy efficiency, and peak demand reduction programs would need to commit those capabilities to the electric distribution utility's energy efficiency and peak demand reduction programs for integration.

Currently, a number of AEP retail mercantile customers participate in one or more of PJM's demand response programs. The Staff is not discouraging such efforts, but believes that such RTO programs are not committed for integration into AEP Ohio's distribution utilities energy efficiency and peak reduction programs. Therefore, the Staff does not believe that such efforts should be credited towards reducing the electric distribution utilities annual benchmarks, and that retail customers who have made such arrangements should not receive an exemption from the AEP Ohio's EDUs energy efficiency cost recovery mechanism.

21. Q. What is the Staff's view with respect to crediting AEP Ohio's distribution utilities interruptible programs towards the annual peak demand reduction targets?

A. Staff believes that such reductions must actually occur and be measured retrospectively in order to receive such credit.

22. Q. Does this conclude your testimony?

A. Yes, it does.

Exhibit GCS-1

Year	Ohio Power Total End-use Delivery	CSP Total End-use Delivery	AEP Ohio Total End-use Delivery
2006	25,262,084	19,567,156	44,829,240
2007	27,727,743	22,009,241	49,736,984
2008	27,965,013	22,514,588	50,479,601
SUM	80,954,840	64,090,985	145,045,825
3 Year Average	26,984,947	21,363,662	48,348,608
2009 Mwh Energy Target	**80,955**	**64,091**	**145,046**

Exhibit GCS-2

Year	Ohio Power EDU Seasonal Peak Load	CSP EDU Seasonal Peak Load	AEP Ohio EDU Seasonal Peak Load
2006	4,950	4,425	9,375
2007	5,167	4,723	9,890
2008	4,919	4,159	9,078
SUM	15,036	13,307	28,343
3 Year Average	5,012	4,436	9,448
2009 MW Peak Reduction Target	**50.12**	**44.36**	**94.48**

PROOF OF SERVICE

I hereby certify that true copy of the foregoing Testimony submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 10th day of November, 2008.

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