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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus and 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: an Amendment to its Corporate separation Plan;	:	Case No. 08-918-EL-SSO

PREFILED TESTIMONY OF J. EDWARD HESS

ELECTRICITY AND ACCOUNTING DIVISION
UTILITIES DEPARTMENT
PUBLIC UTILITIES COMMISSION OF OHIO

STAFF EXHIBIT ______

November 10, 2008

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

A. My name is J. Edward Hess. My business address is 180 E. Broad Street, Columbus, Ohio 43266-0573

2. Q. By whom are you employed?

A. I am employed by the Public Utilities Commission of Ohio (PUCO)?

3. Q. Would you please state your background?

A. I received a Bachelor of Business Administration degree from Ohio University in 1975 with a major in accounting. I completed the majority of Capital University's Master of Business Administration program and I have completed many regulatory training programs. I was employed by the PUCO from August 1975 until May 1977 as a junior accountant. I worked for the certified public accounting firm of John Gerlach and Company from September 1977 until July 1978. Between July 1978 and July 1980, I was employed in various accounting and construction positions. I began my current employment with the PUCO in July 1980. I am a certified public accountant.

4. Q. What is your current position with the PUCO and what are your duties?

A. I am the Chief of the Electricity and Accounting Division of the Utilities Department. I monitor all planning, operations and results, including all final reports issued by the division and I supervise the division's personnel. My duties are to develop, approve, and implement policies and procedures relating to the division and to ensure statutory compliance with state and federal laws, rules, regulations and procedures governing utility regulation. I concentrate on the electricity industry and I am also responsible for the oversight of the operating income and rate base portions of base rates in all utility industries.

5. Q. What is the purpose of your testimony?

A. I have the overall responsibility for the Staff's recommendation in this case. Specifically, I will summarize the Staff recommendations and compare the results of its recommendations to a market rate option, I will address the applicant's distribution service increases, the request to recover un-depreciated value of certain generating plants and I will recommend an alternative rate proposal if the Commission does not issue an Opinion and Order within the one-hundred and fifty days. I also present the Staff's recommended results in a simple ¢ per kWh form.

6. Q. Will you summarize the Staff's recommendation?

A. We are recommending that the Commission adopt the electric security plan (ESP) proposed by Columbus and Southern Power Company (CSP) and the Ohio Power Company (OP) (collectively the AEP companies) with modifications recommended below.

The ESP rates adjusted for the Staff's recommendations would result in a standard service offer that is more favorable in the aggregate as compared to the expected results that would otherwise apply under a market rate option. This result is summarized on Exhibit JEH 1 attached to my testimony.

7. Q. Will you describe Exhibit JEH 1?

A. Exhibit JEH 1 is in similar format to AEP Companies witness Baker's Exhibit JCB-2. Exhibit JEH 1 reflects the Staff's recommended modifications to the AEP companies' proposed ESP plan and includes the AEP companies proposed $75 million contribution to the "Partnership With Ohio" fund.

8. Q. Will you summarize the Staff's modifications to the Applicants' proposal?

A. The Staff is recommending:

i. That the AEP companies are allowed fuel cost recovery (FAC). (Strom)

ii. That the 2007 fuel costs be used as the embedded value when adjusting the fuel adjustment clause (FAC). (Cahaan)

iii. That the AEP companies are allowed to include the costs of bidding out 5% in 2009, 7.5% in 2010 and 10% in 2011 of their annual load requirements and that the cost of that bid out load be included in the FAC. (Cahaan)

iv. That the AEP companies are allowed an annual update to the return on their environmental investment. (Soliman)

v. That the AEP companies are not allowed to continue the 3% and 7% increases for Columbus and Southern (CSP) and Ohio Power (OP) but that they be allowed a 1.5% and 3.5% increase in the non-FAC generation component. (Cahaan)

vi. That the AEP companies not be allowed their requested provider of last resort (POLR) charge. (Cahaan)

vii. That both of the AEP companies file a distribution rate case in 2009 and that the distribution related costs and issues be examined in that case. The distribution related costs and issues include reliability issues, line extension and amortization of regulatory assets. We recommend that the companies begin certain reliability programs with the costs to be deferred provided that the costs are not recovered under the current rates. (Hess/Roberts)

viii. That the AEP companies be allowed a recovery mechanism for the costs of gridSmart but that that recovery mechanism originally be set at zero. (Baker/Scheck)

ix. That the AEP companies be allowed to recover the costs for Energy Efficiency and Peak Demand Reduction programs. (Scheck and Siegfried)

x. That the AEP companies not be allowed to defer costs past the three-year ESP period but if a phase-in of the first year increase is needed that it is levelized over the three year ESP period and the carrying cost be adjusted to a more reasonable level than the carrying cost recommended by the Applicant for its phase-in calculation. (Cahaan)

xi. That the AEP companies not be allowed to transfer current generation plants to an unregulated affiliate until further review can be performed. (Buckley)

xii. That the AEP companies request to recover the un-depreciated value of a generation plant that is retired during the ESP period be denied. (Hess)

xiii. Revisions to the estimated market rate. (Johnson)

xiv. An alternative to the AEP companies' interim plan. (Hess)

Distribution Rate Case

9. Q. The AEP companies have requested incremental increases to the distribution rates to recover the costs of several reliability programs and for CSP's investment in the gridSmart program. Will you explain what the Staff is recommending for the distribution company recovery beyond the standard service offer?

A. The Staff's proposed recovery of the gridSmart costs is contained in the testimonies of Staff witnesses Baker and Scheck. We are recommending that the AEP companies be allowed additional recovery of Energy Efficiency and Peak Demand Reduction programs as a distribution company charge.

The Staff is recommending that the AEP companies file a base rate case in 2009 to recover the costs of the additional reliability programs, line extension and amortization of regulatory assets that have been requested by the AEP companies in this case.

10. Q. Why is the Staff recommending that a distribution base rate case be filed?

A. The last base rate case filed by these companies was seventeen years ago for CSP and fourteen years ago for OP. There have been tremendous changes in the electric distribution industry in the past fifteen years and the Staff believes that these changes need to be reflected in the rates and tariffs of these companies. The rate of returns authorized, the rate base investment, the operation and maintenance expenses, the sales levels and sales mix, taxes, and almost any component of the revenue requirement and/or cost of service studies are different. Allocations are all different. Possibly the biggest change is that the AEP companies unbundled the rates from a vertically integrated utility to a distribution utility. That change alone would warrant an overview of the current rates. The current terms and conditions of the AEP companies' tariffs are different and they should be re-written to be consistent with each other.

The Staff also believes that there are some issues of the distribution system that need to be publicly addressed. There have been a lot of accusations and public discussions about the AEP companies management of its distribution system specifically as it related to the costs of the 2004/2005 ice storms and the 2008 hurricane damage. A distribution case would give the AEP companies and the intervening parties the opportunity to publically discuss these issues as well as plan a course for future expenditures with public input. These public forums are an important aspect of the public's education and trust.

The Staff also believes that a distribution case would provide a clearer picture of corporate separation which would lead to a better understanding of the return on equity calculations of the companies.

11. Q. Other Staff witnesses are recommending that some of the reliability programs begin during 2009. This would presumably be before the Commission can finalize an Opinion and Order in a distribution case. How would either of these Applicants recover these costs if these programs are not specifically included in the current rates?

A. We believe that these companies' current distribution rates provide enough revenues to begin some of these programs. This is supported by the Staff's analysis performed in Case No. Case No. 06-222-EL-SLF.

However, if the costs of these new programs materially erode the Applicants' ability to recover a reasonable return, the Commission should allow the Applicants to defer these costs and allow the opportunity to recover these costs in the next base rate case. We recommend that the test for recovery in the base rate case be whether there was a material impact on the Applicant's ability to recover a reasonable return for the distribution service during the period that the costs were deferred.

Possible Early Plant Closure

12. Q. The AEP Companies have requested that the net loss of generating plants that are retired earlier than their estimated useful life because they experience failures or

safety issues and that would require significant investment to keep them operating be deferred as a regulatory asset. The AEP companies further request that that regulatory asset be recovered through a non-by-passable rider over a reasonable relatively short period of years. Do you agree with this recommendation?

A. No. The economic value of the generating fleet was measured in AEP companies Electric Transition Plan, Case Nos. 99-1729-EL-ETP and 99-1730-EL-ETP. The AEP companies stipulated in that case that they would not impose any lost generation charges on any switching customers during the market development period (2001-2005). Although the economic value of generating fleet was never specifically addressed by the Commission, it could be assumed that the net value of the companies' fleet was not stranded.

We are not recommending that the Commission require the customers to bear the costs/risk of these uneconomic plants without accounting for the offset of the positive economic value of the rest of the AEP companies' generating fleet. Given that the market rates have increased significantly since it was measured in Case Nos. 99-1729-EL-ETP and 99-1730-EL-ETP, we are assuming that net value of the generating fleet is still positive.

Alternative 1/1/09 Plan

13. Q. The AEP companies have proposed an interim plan as noted in Section V.E. of the Application (Electric Security Plan Timing Factor). The AEP companies request that in the event that the Commission is unable to meet the statutory requirement of 150 days, that the companies be allowed a provision that

establishes a one-time rider to reflect the difference between the ESP approved rates and the rates charged under the AEP companies existing standard service offer and reflects the length of time between the end of the December 2008 billing month and the effective date of the new ESP rates. Do you agree with this request?

A. No. If the Commission does not issue an Opinion and Order within the one-hundred and fifty days, I recommend that the Commission authorize the AEP companies to continue the rate stabilization plan. This would include an increase for generation rates of 3% for CSP and 7% for OP, allow the full additional 4% increase of generation rates for both companies, keep the POLR rates in place, leave the line extension policy in place and price the Monongahela and Ormet loads at the market price recommended by OCC witness Smith. I also recommend that the RTC rider for the CSP customers be eliminated.

14. Q. Would you recommend that the increase be reconciled when the Commission makes its final determination?

A. No. The alternative rates should stay in place until the effective date of the final Opinion and Order and no reconciliation of those rates to the final Order should be required.

Attachment 2

15. Q. Will you describe JEH Exhibit 2 attached to this testimony?

A. This Exhibit quantifies the revenue increases recommended by the Staff. It estimates the kWh rates that would result from those estimated increases and the percentage increases on the overall rates. This Exhibit used the same format and revenue increases included in AEP witness' Roush Exhibits and the AEP companies' response to Staff's Date Request 10.

I believe that Exhibit JEH 2 shows that the Applicant's proposed ESP, as adjusted by the Staff, results in very reasonable rates.

16. Q. Does this conclude your testimony?

A. Yes, it does.

EXHIBIT JEH-1

	Columbus Southern Power Company				Ohio Power Company			
	2009	2010	2011	Total	2009	2010	2011	Total
Estimated Cost of Market Rate Option								
MWH Load to be Purchased under 10%/20%/30% MRO	2,271,512	4,543,023	6,814,535		2,815,095	5,630,189	8,445,284	
Estimated Market Price ($/MWH)	$74.71	$74.71	$74.71		$73.59	$73.59	$73.59	
Estimated Purchase Cost of 10%/20%/30%	$170	$339	$509	$1,018	$207	$414	$622	$1,243
2001 - 2008 Incremental Environmental (90%/80%/70%)	$23	$29	$29	$82	$76	$78	$72	$226
POLR (90%/80%/70%)	$0	$0	$0	$0	$55	$49	$43	$146
Estimated Cost of 10%/20%/30% Market Rate Option	**$193**	**$368**	**$539**	**$1,100**	**$338**	**$541**	**$736**	**$1,616**
Estimated Cost of Companies' ESP								
Estimated Purchase Cost of 5%/7.5%/10%	$85	$127	$170	$382	$104	$155	$207	$466
2001 - 2008 Incremental Environmental	$26	$36	$42	$104	$84	$98	$103	$285
POLR	$0	$0	$0	$0	$61	$61	$61	$183
Annual 1.5%/3.5% non-FAC Increase	$6	$13	$20	$39	$18	$37	$57	$112
Annual 0% Distribution Increase	$0	$0	$0	$0	$0	$0	$0	$0
Economic Development Contribution	-$10	-$10	-$10	-$30	-$15	-$15	-$15	-$45
Estimated Cost of Companies' ESP	$107	$166	$221	$495	$252	$336	$413	$1,001
Estimated Benefit of Companies' ESP	**$86**	**$202**	**$317**	**$605**	**$86**	**$205**	**$324**	**$615**

Columbus Southern Power Company

2009 G & T Sales	22,549,026,960
2009 D Sales	22,715,116,000

	2008		2009		2010		2011	
	Revenues	Rate	Increase	Rate	Increase	Rate	Increase	Rate
Generation	1,074,335,545	4.76	242,878,615	5.84	16,550,694	5.91	12,648,955	5.97
Transmission	181,192,902	0.80		0.80		0.80		0.80
Distribution	523,104,290	2.30	-55,264,290	2.06	14,843,325	2.12	9,576,500	2.17
	1,778,632,737	7.87	187,614,325	8.70	31,394,019	8.84	22,225,455	8.94
Increase in Total Rate				11%		2%		1%

Ohio Power Company

2009 G & T Sales	28,150,945,000
2009 D Sales	28,150,945,000

	2008		2009		2010		2011	
	Revenues	Rate	Increase	Rate	Increase	Rate	Increase	Rate
Generation	1,060,794,120	3.77	438,720,814	5.33	32,849,622	5.44	24,509,359	5.53
Transmission	190,538,964	0.68		0.68		0.68		0.68
Distribution	474,700,921	1.69	-22,925,305	1.60	17,847,250	1.67	11,803,125	1.71
	1,726,034,005	6.13	415,795,508	7.61	50,696,872	7.79	36,312,484	7.92
Increase in Total Rate				24%		2%		2%

EXHIBIT JEH-2

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.

Werner L. Margard

Parties of record:

Marvin I. Resnik
Steven T. Nourse
American Electric Power company
1 Riverside Plaza
Columbus, OH 43215

Daniel Conway
Porter Wright Morris & Arthur LLP
41 South High Street
Columbus, OH 43215

Attorneys for Columbus Southern Power company and Ohio Power company

Terry Etter
Maureen Grady
Michael E. Idzkowski
Richard Reese
Jacqueline Roberts
Ohio Consumers' Counsel
10 W. Broad Street, Suite 1800
Columbus, OH 43215

Attorneys for The Ohio Consumers' Counsel

C. Todd Jones
Christopher L. Miller
Gregory H. Dunn
Andre T. Porter
Schottenstein Zox & Dunn Co., LPA
250 West Street
Columbus, Ohio 43215
Attorneys for the Association of Independent Colleges and Universities of Ohio ("AICUO")

Sally Bloomfieid
Bricker & Eckler LLP
100 South Third Street
Columbus, OH 43215-4291
Attorney for The American Wind Energy Association, Wind on Wires, and Ohio Advanced Energy

M. Howard Petricoff
Stephen M. Howard
Vorys, Sater, Seymour and Pease LLP
52 East Gay Street
P. O. Box 1008
Columbus, Ohio 43216-1008
&
Cynthia A. Fonner
Senior Counsel
Constellation Energy Group, Inc.
550 W. Washington St., Suite 300
Chicago, IL 60661
Attorneys for Constellation NewEnergy, Inc. and Constellation Energy Commodities Group, Inc.

Michael R. Smalz
Ohio State Legal Service Assoc.
555 Buttles Avenue
Columbus, OH 43215
Attorney for the Appalachian People's Action Coalition (APAC)

M. Howard Petricoff
Stephen M. Howard
Vorys, Sater, Seymour and Pease LLP
52 East Gay Street
P. O. Box 1008
Columbus, Ohio 43216-1008
Attorneys for ConsumerPowerline, Direct Energy Services, LLC, EnerNOC, Inc., Ohio Association of School Business Officials, Ohio School Boards Association, and Buckeye Association of School Administrators

M. Howard Petricoff
Stephen M. Howard
Vorys, Sater, Seymour and Pease LLP
52 East Gay Street
P. O. Box 1008
Columbus, Ohio 43216-1008
&
Bobby Singh
Integrys Energy Services Inc
300 West Wilson Bridge Road, Suite 350
Worthington, OH 43085
Attorneys for Integrys Energy Services, Inc.

Matthews White
Chester Wilcox & Saxbe LLP
65 East State Street, Suite 1000
Columbus, OH 43215
Attorney for the Kroger company

David Boehm
Michael Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202-4454
Attorney for Ohio Energy Group

Joseph M. Clark
Lisa McAlister
Samuel C. Randazzo
McNees, Wallace & Nurik
21 East State Street, 17th Floor
Columbus, OH 43215-4228
Attorneys for Industrial Energy Users-Ohio

Douglas M. Mancino
McDermott Will & Emery LLP
2049 Century Park East, Suite 3800
Los Angeles CA 90067
&
Grace C. Wung
Mcdermott Will & Emery LLP
600 Thirteenth Street, N.W.
Washington, DC 20005
Attorneys for the Wal-Mart Stores East LP, Sam's Club East, and Macy's Inc. (collectively, the "Commercial Group")

Douglas M. Mancino
McDermott Will & Emery LLP
2049 Century Park East, Suite 3800
Los Angeles CA 90067
&
Gregory K. Lawrence
Mcdermott Will & Emery LLP
28 State Street
Boston Ma 02109
Attorneys for Morgan Stanley Capital Group, Inc

Craig Goodman
President, National Energy Marketers Assoc.
3333 K Street, N.W., Suite 110
Washington, DC 20007
Attorney for the National Energy Marketers Association

Barth E Royer
Bell & Royer Co., LPA
33 South Grant Avenue
Columbus OH 43215
Attorney for The Ohio Environmental Council and Dominion Retail, Inc.

Larry R. Gearhardt
Ohio Farm Bureau Federation
280 N. High Street
P.O. Box 182383
Columbus, OH 43218-2383
Attorney for the Ohio Farm Bureau Federation

Langdon D. Bell
Bell & Royer Co., LPA
33 South Grant Avenue
Columbus OH 43215-3927
Attorney for The Ohio Manufacturers' Association

Richard L. Sites
Ohio Hospital Association
155 E. Broad Street, 15th Floor
Columbus, OH 43215-3620
&
Thomas O'Brien
Bricker & Eckler LLP
100 South Third Street
Columbus Oh 43215
Attorneys for Ohio Hospital Association

Clinton A. Vince
Presley R. Reed
Emma F. Hand
Ethan E. Rii
Sonnenschein Nath & Rosenthal LLP
1301 K Street NW
Suite 600, East Tower
Washington, DC 20005
Attorneys for Ormet Primary Aluminum Corporation

David C. Rinebolt
Colleen L. Mooney
231 West Lima St.
P.O. Box 1793
Findlay, OH 45839-1793
Attorney for Ohio Partners for Affordable Energy

Nolan Moser
1207 Grandview Ave. Suite 201
Columbus, OH 43212-3449
Attorney for The Ohio Environmental Council

Henry W. Eckhart
50 West Broad Street #2117
Columbus Ohio 43215
Attorney for The Sierra Club of Ohio & The Natural Resources Defense Council