

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

18
RECEIVED REGULATORY DIV
2009 JAN -7 AM 11:36
PUCO

In the Matter of the Joint Application of)
Columbus Southern Power Company and) Case No. 08-1338-EL-AAM
Ohio Power Company for Authority to)
Modify their Accounting Procedure.)

In the Matter of the Joint Application of)
Columbus Southern Power Company and)
Ohio Power Company and Ormet Primary) Case No. 08-1339-EL-UNC
Aluminum Mill Products Corporation)
for Approval of a Temporary Amendment)
To Their Special Arrangement.)

**MOTION TO INTERVENE AND COMMENTS
BY THE OFFICE OF THE OHIO CONSUMERS' COUNSEL**

The Office of the Ohio Consumers' Counsel ("OCC"), on behalf of residential utility consumers, moves the Public Utilities Commission of Ohio ("PUCO" or "Commission") to grant the OCC's intervention in the above captioned cases.¹ The Joint Application ("Application") was filed in the case by Columbus Southern Power Company, Ohio Power Company ("Companies") and Ormet Primary Aluminum Mill Products Corporation ("Ormet") on December 29, 2008, for authority to approve an interim arrangement between the Companies and Ormet because the original arrangement

¹ This motion is supported by R.C. Chapter 4911, R.C. 4903.221, Ohio Adm. Code 4901-1-11 and 4901-1-12.

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business.
Technician SM Date Processed JAN 07 2009

governing the provision of generation service to Ormet approved by the Commission² was to expire (and did) on December 31, 2008.

Under the interim arrangement proposed by the Companies and Ormet, the generation service to Ormet would continue and the price Ormet would pay would be based on a blend of the Companies' current Standard Service Offer ("SSO") rates for generation³, rather than at the higher \$43 per megawatt-hour generation rate they are paying and have paid through December 31, 2008. ⁴ Under the arrangement in place through December 31, 2008, delta revenues are created based on the difference between the \$43 generation rate and the latest market rate (2008) of \$53.03 MWH, equating to an \$10.03 delta per MWH. Based on the projected 2008 monthly usage of Ormet, (approximately 380,000 average MWH per month)⁵ under the current arrangement nearly \$4million per month in delta revenue is being created.⁶

Deferred accounting authority is also sought by the Companies to establish a regulatory asset related to the difference ("market delta") between the blended SSO

² See *In the Matter of the petition of Ormet Primary Aluminum Corporation and Ormet Aluminum Mill Products to transfer rights to furnish electric service and/or reallocate certified electric service territories and a complaint against South Central Power Company and Ohio Power Company for alleged unjust, unreasonable, and discriminatory proposed rates*, Case No. 05-1057-EL-CSS, Opinion and Order (Nov. 8, 2006), amended by *Opinion and Order* (Aug. 27, 2008).

³ Specifically the Companies propose that Ormet pay OPCO's Schedule GS-4 tariff rates and riders for one half of Ormet's load and CSP's Schedule GS-4 tariff rates and riders for one-half of Ormet's load. This is apparently less than the \$43 per megawatt hour rate Ormet paid through December 31, 2008.

⁴ Application at 5.

⁵ Projected usage was submitted on Attachment 1 to the Companies' Market Price Submission in Case No. 07-1317-EL-UNC, on December 27, 2007.

⁶ See Companies' Response to OCC Inquiry re: AEP filing in Case No. 07-1317-EL-UNC (Dec. 27, 2007), Attachment A.

generation rate proposed to be charged to Ormet in the interim and the 2008 market price of \$53.03 MWH.⁷ The Application proposes to recover the market delta deferral through the fuel adjustment clause (“FAC”) mechanism proposed in the Companies’ pending Electric Security Plan (“ESP”) cases, Case Nos. 08-917-EL-SSO and 08-918-EL-SSO.

The Companies’ claim that approval of an interim arrangement is necessary to maintain service to Ormet because the “current” arrangement with Ormet is to expire on December 31, 2008 and the Commission has not issued an order in the Companies’ pending ESP proceedings⁸ Moreover, Ormet has advised the Companies that it cannot continue to take service from the Companies at the \$43 per megawatt hour rate.⁹ The result is that Ormet is asking for an increase in an already substantial subsidy shouldered by other customers.

The Companies advise that in their ESP proceedings they have proposed to purchase power from the wholesale power market in 5%, 10% and 15% increments of their SSO load from 2009-2011, and that such purchases, in part, address the Companies’ obligation to serve Ormet’s generation load.¹⁰ The Companies note that if their slice of system purchase power proposal is approved, Ormet could take service under the standard service offer for generation.¹¹ Nevertheless, Ormet and the Companies claim to

⁷ See *In the Matter of the application of Columbus Southern Power Company's and Ohio Power Company's to set the 2008 Generation Market Price for Ormet Hannibal Facilities*, Case No. 07-1317-EL-UNC Finding and Order (Dec. 8, 2008), which set the 2008 market price.

⁸ Application at 4.

⁹ Application at 3-4.

¹⁰ Id at 3.

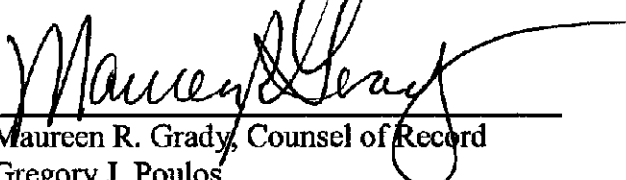
¹¹ Id.

be negotiating a longer-term service agreement and expect that this will be filed prior to the Commission's decision in the ESP proceeding.¹²

The reasons for granting OCC's motion to intervene are set forth in the attached Memorandum in Support, where OCC also addresses the proposed economic development rates and the creation of a market delta to be collected from customers. OCC believes that approving a temporary amendment to the Ormet special arrangement is not appropriate given that the Companies have failed to demonstrate that the special arrangement should continue into the future under the terms it proposes. Additionally, permitting accounting authority that would establish regulatory assets of a market delta, is premature, unfounded, and would be unreasonable and unlawful at this time. The Companies' and Ormet's Joint Application and Request for Accounting Authority should be denied.

Respectfully submitted,

JANINE L. MIGDEN-OSTRANDER
CONSUMERS' COUNSEL


Maureen R. Grady, Counsel of Record
Gregory J. Poulos
Assistant Consumers' Counsel

Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
Telephone: (614) 466-8574
grady@occ.state.oh.us
poulos@occ.state.oh.us

¹² Id.

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Joint Application of)
Columbus Southern Power Company and) Case No. 08-1338-EL-AAM
Ohio Power Company for Authority to)
Modify their Accounting Procedure.)

In the Matter of the Joint Application of)
Columbus Southern Power Company and)
Ohio Power Company and Ormet Primary) Case No. 08-1339-EL-UNC
Aluminum Mill Products Corporation)
for Approval of a Temporary Amendment)
To Their Special Arrangement.)

MEMORANDUM IN SUPPORT AND COMMENTS

The OCC moves to intervene in the above captioned docket in order to represent the interests of approximately 1.2 million residential electric customers of the Companies. These customers are the very ones who under the Joint Applications will likely pay the market delta related to generation service to Ormet.

I. ARGUMENT

A. Intervention

OCC moves to intervene under its legislative authority to represent residential utility consumers in Ohio, pursuant to R.C. Chapter 4911. R.C. 4903.221 provides, in part, that any person “who may be adversely affected” by a PUCO proceeding is entitled to seek intervention in that proceeding. The interests of Ohio’s residential consumers may be “adversely affected” by this case, especially if the consumers are unrepresented in a proceeding to approve the Companies’ proposed special interim arrangement with

Ormet and the proposed deferral authority by the Companies seek to collect the full proposed Ormet generation service market delta from remaining customers, including residential customers. Thus, this element of the intervention standard in R.C. 4903.221 is satisfied.

R.C. 4903.221(B) requires the Commission to consider the following criteria in ruling on motions to intervene:

- (1) The nature and extent of the prospective intervenor's interest;
- (2) The legal position advanced by the prospective intervenor and its probable relation to the merits of the case;
- (3) Whether the intervention by the prospective intervenor will unduly prolong or delay the proceeding; and
- (4) Whether the prospective intervenor will significantly contribute to the full development and equitable resolution of the factual issues.

First, the nature and extent of OCC's interest lies in ensuring that the Companies' residential customers are not charged SSO generation rates and charges that are unjust and unreasonable on an interim or long-term basis. Such unjust and unreasonable rates would result if residential customers are required to pay the entire amount of the delta revenue, "market delta" or otherwise, that is created by a discount the Companies are offering to Ormet. This interest is different than that of any other party, and is especially different than that of the utility whose advocacy includes the financial interest of the Companies' stockholders.

Second, OCC's advocacy for consumers will include advancing the position that residential SSO generation rates should be no more than what is reasonable and permissible under Ohio law and should not discourage competition. Under the Joint Application before the Commission, the SSO generation rates will be increased

significantly by creating and collecting the market delta from the Companies' customers. OCC's position is therefore directly related to the merits of such a proposal in this case and its impact upon the Companies' pending ESP cases.

Third, OCC's intervention will not unduly prolong or delay the proceeding. OCC, with its longstanding expertise and experience in PUCO proceedings, will duly allow for the efficient processing of the case with consideration of the public interest.

Fourth, OCC's intervention will significantly contribute to the full development and equitable resolution of the factual issues. In the event the Commission entertains the Companies' and Ormet' Applications, OCC will develop and present its recommendations for a resolution of the case that is lawful and reasonable.

OCC also satisfies the intervention criteria in the Ohio Administrative Code, which are subordinate to the criteria that OCC satisfies in the Ohio Revised Code. To intervene, a party should have a "real and substantial interest" according to Ohio Adm. Code 4901-1-11(A)(2). As the residential utility consumer advocate, OCC has a real and substantial interest in this case where the outcome will have the effect of increasing the rates paid by residential customers.

In addition, OCC meets the criteria of Ohio Adm. Code 4901-1-11(B)(1)-(4). These criteria mirror the statutory criteria in R.C. 4903.221(B) that OCC has already addressed, and that OCC satisfies.

Ohio Adm. Code 4901-1-11(B)(5) states that the Commission shall consider the "extent to which the person's interest is represented by existing parties." While OCC does not concede the lawfulness of this criterion, OCC satisfies this criterion because OCC has been uniquely designated as the statutory representative of the interests of

Ohio's residential utility consumers.¹³ That interest is different from, and not represented by, any other entity in Ohio.

The Supreme Court of Ohio recently confirmed OCC's right to intervene in PUCO proceedings, in ruling on an appeal in which OCC claimed the PUCO erred by denying its intervention. The Court found that the PUCO abused its discretion in denying OCC's intervention and that OCC should have been granted intervention.¹⁴

OCC meets the criteria set forth in R.C. 4903.221, Ohio Adm. Code 4901-1-11, and the precedent established by the Supreme Court of Ohio for intervention. On behalf of the Companies' residential consumers, the Commission should grant the OCC's Motion to Intervene.

B. The Merits of the Application

1. The Companies bear the burden of proof and have offered no evidence supporting the Applications

The Companies bears the burden of proving to the PUCO that the Applications should be approved. OCC bears no burden of proof in this case.¹⁵ The Applications do not contain sufficient information to satisfy the Companies' burden of proof in the following respects:

- (1) The Companies have failed to show that continuation of a special arrangement with Ormet is just and reasonable and will not adversely affect other customers' rates and services;

¹³ R.C. Chapter 4911.

¹⁴ *Ohio Consumers' Counsel v. Public Util. Comm.*, 111 Ohio St.3d 384, 2006-Ohio-5853, ¶18-20.

¹⁵ R.C. 4909.18 provides that, in the circumstance where a proposal "may be unjust or unreasonable, the commission shall set the matter for hearing" and "the burden of proof to show that the proposals in the application are just and reasonable shall be upon the public utility."

- (2) The Companies have failed to show that it is appropriate to create a delta based on any market rate;
- (3) The Companies have failed to show the that it is appropriate to create a delta using a blended SSO rate;
- (4) The Companies have failed to show that a Commission decision is needed immediately to maintain service to Ormet; and .
- (5) The Companies have failed to show that it is appropriate to create a regulatory asset in the interim period prior to approval of either the ESP or approval of a longer-term arrangement between the Companies and Ormet.

Since the Companies have failed to address these issues, issues which must be considered before the Application is approved, the Application should be denied. If the Commission is concerned about generation service being provided by the Companies to Ormet at an unapproved rate, it should merely approve the SSO blended rate proposed on an interim basis, and make no determination as to the appropriateness of creating regulatory assets by deferring the market delta. Moreover, it should make no determination that the Ormet special arrangement continues to meets the criteria that must be satisfied to permit the delta revenues created to be collected by all of the Companies' other customers.

This would then provide a signal to the Companies that they need to come forward with evidence to support their burden of proof in this proceeding that the Ormet proposal continues to meet the criteria for special arrangements and that the creation of

market delta revenues on an interim basis is necessary, and is just and reasonable under the present circumstances.

2. The Companies' proposed Application is discriminatory, in violation of Ohio law.

The Companies' Application proposes to discount rates in favor of one select customer, Ormet. The Companies seek to discriminate against the rest of the Companies' customer base, and apparently intend to increase its charges to its larger base of customers to recover the costs of the discounted Ormet rates—through a “market delta.” The market delta is calculated by comparing the blended SSO generation rate offered to Ormet with the 2008 market price previously determined by the Commission under the original arrangement. Notably the blended SSO rate is less than the previous \$43 megawatt hour generation rate charged to Ormet and used in the delta revenue calculations under the original arrangement. This means that on a monthly basis delta revenues greater than \$4 million per month will be created and will be collected at a later date from the Companies' customers. This delta revenue, if permitted as proposed by the Companies, will be in an amount greater than ever approved before in the previous Ormet economic development cases.

The Companies' proposal is discriminatory, and should be rejected. The Companies' application violates both R.C. 4905.33 and R.C. 4905.35 by providing reduced charges to a select few eligible customers. R.C. 4905.33(A) states:

No public utility shall directly or indirectly, or by any special rate, rebate, drawback, or other device or method, charge, demand, collect, or receive from any person, firm, or corporation n a greater or lesser compensation for any services rendered, or to be rendered, except as provided in Chapters 4901., 4903., 4905., 4907., 4909., 4921., and 4923. of the Revised Code, than it charges, demands, collects, or receives from any other person,

*firm, or corporation for doing a like and contemporaneous service under substantially the same circumstances and conditions.*¹⁶

R.C. 4905.35 prohibits utilities from giving “undue or unreasonable preference or advantage to any ... corporation” Specifically with regard to the electric industry, it is the policy of the State of Ohio to “[e]nsure the availability to consumers . . . *nondiscriminatory* retail electric service.”¹⁷ Furthermore, the Commission’s corporate separation rules provide that an “electric utility shall provide comparable access to products and services . . . and . . . shall be prohibited from unduly discriminating in the offering of its products and/or services.”¹⁸

The Companies propose to provide a discount to one specific SSO generation service customer, discriminating against other customers whose service characteristics are similar to Ormet. The Companies also propose to discriminate between similarly situated SSO generation customers, favoring Ormet over similarly situated customers. The application is therefore on its face discriminatory, violating R.C. 4905.33, 4905.35, 4928.02(A), and the corporate separation requirements contained in the Commission’s rules.

3. The Companies’ Application fails to comply with recently enacted S.B. 221 Rules related to Unique Arrangements

Although S.B. 221 explicitly permits reasonable arrangements based on economic development, it requires all such arrangements to be filed with and approved by the

¹⁶ Emphasis added.

¹⁷ R.C. 4928.02(A) (emphasis added).

¹⁸ Ohio Adm. Code 4901:1-20-16(G)(4)(i) (“Code of Conduct”).

PUCO.¹⁹ Moreover, such arrangements are to be under the supervision and regulation of the Commission and are subject to “change, alteration, or modification” by the Commission.

The PUCO recently enacted rules specifically addressing “reasonable arrangements.”²⁰ Under 4901:1-38-03(B)(3), an electric utility seeking approval of an economic development arrangement to retain an existing customer, such as Ormet, has the burden of proof as to the “reasonableness of the arrangement requested” and must submit “verifiable information detailing the rationale for the arrangement.” The rules provide for the filing of specific information,²¹ none of which has been provided by the Companies in this docket. Under the rules, if it appears to the Commission that the application is unjust or unreasonable, the Commission may order a hearing.²² Additionally, the rules permit the Commission to change, alter, or modify the economic development arrangement.²³

In addition, although S.B. 221 allows a utility seek to recover “revenues foregone” as a result of an economic development arrangement,²⁴ the rules make it clear that the recovery of delta revenues is a matter within the discretion of the Commission.²⁵ If it appears to the Commission that the revenue recovery proposed may be unjust and

¹⁹ R.C. 4905.31.

²⁰ Chapter 4901:1-38.

²¹ Ohio Admin. Code 4901:1-38-03(B)(1)(2).

²² Ohio Admin. Code 4901:1-38-03(C).

²³ Id.

²⁴ R.C. 4905.31(E).

²⁵ Ohio Admin. Code 4901:1-38-08(A)(1).

unreasonable, it shall set the matter for hearing.²⁶ The burden of proof is on the utility to show that the application is just and reasonable.²⁷

OCC submits that the Companies have failed to bear the burden of proving that the interim arrangement they seek approval of is just and reasonable. The Companies have failed to provide any of the information required under the recently enacted rules—information that is needed to assess the reasonableness of the proposed arrangement.

On its face the filing of the Companies is unjust and unreasonable in the following respects. The Companies are seeking approval of an interim rate that is not supported by any evidence. Moreover, the Companies seek to create a market delta for the foregone revenues when a market delta may not be appropriate. As testimony submitted in the ESP case bears out, the Companies do not need to go to the market to meet the needs of Ormet.²⁸ Such needs can be met internally or through the AEP system at a price much lower than the \$53 per MWH sought to be established here. Providing a market delta to the Companies will significantly increase the rates the remaining customers of the Companies will pay.

Additionally, under the Application the Companies appear to request, consistent with the position taken in the ESP case, that customers bear 100% of the delta revenues created under the Ormet special contract. Pushing 100% of the delta revenues to the remaining Companies' customers is unjust and unreasonable and is inconsistent with Commission policy and precedent on this issue. In regards to allocating delta revenues,

²⁶ Ohio Admin. Code 4901:1-38-08(B).

²⁷ Ohio Admin. Code 4901:1-38(B)(1).

²⁸ See Testimony of IEU Witness Kollen at 3; OEG Ex. 3.

the Commission has held “that a 50/50 split properly recognizes that both the company and its customers benefit from the company’s policy of providing economic incentive rates to certain customers to attract new business in the utility’s service territory.”²⁹ Furthermore, this 50/50 sharing of the delta revenues is consistent with other decisions which addressed the issue.³⁰ Most recently in the context of the FirstEnergy ESP case,³¹ the Commission acknowledged its 50/50 delta revenue sharing policy.³² While noting the restructuring under S.B. 221 may warrant an increase in percentage of revenue recovered by the electric utilities, the Commission indicated that it did not believe 100% recovery of delta revenues will always be warranted.³³ Rather it acknowledged that the proportion of delta revenues recovered would be dealt with on a case by case basis.³⁴

Under the proposal structured by the Companies, there is no incentive to negotiate a fair rate with Ormet in this situation. In fact, it is in the Companies’ interest to give whatever discount is necessary to get the deal done -- if the Companies do not have to pay any part of the market delta. By striking a deal, the Companies get the revenue and

²⁹ *In the Matter of the Application of Columbus Southern Power Company for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Electric Service*, 91-418-EL-AIR. Opinion and Order at 110 (May 12 1992).

³⁰ See *Ohio Edison Company*, Case No. 89-1001-EL-AIR, Opinion and Order at 40-41. (August 16, 1990), at 40-41 and *Cleveland Electric Illuminating Co.*, Case No. 88-170-EL-AIR, Opinion and Order at 18-19 (January 31, 1989).

³¹ *In the Matter of the Application of Ohio Edison Company, the Cleveland Electric Illuminating Company, and the Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised code in the Form of an Electric Security Plan*, Case No. 08-935-EL-SSO.

³² *Id.* Opinion and Order at 55 (Dec. 19, 2008).

³³ *Id.*

³⁴ *Id.*

the customers have to bear the full costs that are not contemplated by PUCO policy or precedent.

III. CONCLUSION

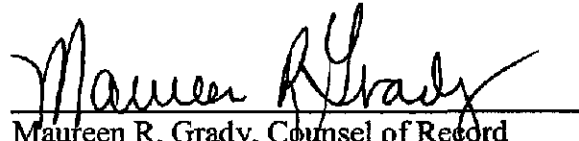
The Commission should not approve the Applications before it. The Companies have failed to sustain their burden of proving that the Applications are just and reasonable.

The Companies have failed to demonstrate that continuation of a special arrangement with a market delta is just and reasonable at this time and will not adversely affect other customers' rates and services. Nor have the Companies shown that it is appropriate to create a delta based on any market rate. Finally, the Companies have failed to show that a Commission decision is needed immediately to maintain service to Ornet.

The reasonable course of action for the Commission is to deny the Applications. There is no need to rush to judgment here.

Respectfully submitted,

JANINE L. MIGDEN-OSTRANDER
CONSUMERS' COUNSEL

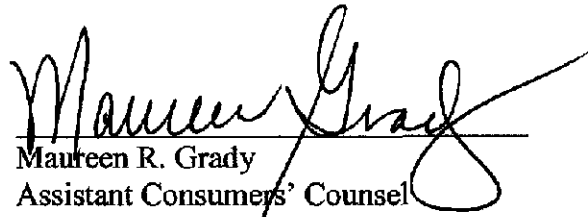


Maureen R. Grady, Counsel of Record
Gregory J. Poulos
Assistant Consumers' Counsel

Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
Telephone: 614-466-8574
grady@occ.state.oh.us
poulos@occ.state.oh.us

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Motion to Intervene and Comments has been served upon the below-named persons via electronic transmission and by regular U.S. Mail Service, postage prepaid, this 7th day of January, 2009.


Maureen R. Grady
Assistant Consumers' Counsel

SERVICE LIST

Marvin Resnik
Steve Nourse
Matthew J. Satterwhite
AEP Service Corp.
1 Riverside Plaza, 29th Floor
Columbus, OH 43215

Duane Luckey
Assistant Attorney General
Public Utilities Commission of Ohio
180 E. Broad St., 9th Fl.
Columbus, OH 43215

Clinton A. Vince
William D. Booth
Emma F. Hand
Ethan E. Rii
Sonnenschein Nath & Rosenthal LLP
1301 K Street NW
Suite 600, East Tower
Washington, DC 20005

Inquiries Regarding AEP Filing
Case 07-1317-EL-UNC (December 27, 2007)
By the Office of the Ohio Consumers' Counsel

1. For 2007 by month, what were the actual capacity figures (MW), the actual energy used (MWH), and the amount of the Ohio Franchise Tax phase-out regulatory liability that was used in connection with the Ormet facilities?

Answer

<u>Year</u>	<u>Beginning Balance</u>	<u>MWH</u>	<u>Amortization Rate (\$/MWH)</u>	<u>Amortization</u>	<u>Ending Balance</u>
2007	\$56,968,000	2,965,353	4.69	\$13,907,508	\$43,060,492

2. Referring to the Ohio Franchise Tax phase-out regulatory liability (\$56,968,000) as mentioned in the supplemental Opinion and Order of Case No. 05-1507-EL-CSS, how much of the remaining balance is expected to be used (by month) in 2008?

Answer

<u>Mth-Yr</u>	<u>Beginning Balance</u>	<u>Forecast MWH</u>	<u>Amortization Rate (\$/MWH)</u>	<u>Projected Amortization</u>	<u>Projected Ending Balance</u>
Jan-08	\$43,060,492	371,640	10.03	\$3,727,549	\$39,332,943
Feb-08	\$39,332,943	355,173	10.03	\$3,562,385	\$35,770,558
Mar-08	\$35,770,558	385,302	10.03	\$3,864,579	\$31,905,979
Apr-08	\$31,905,979	379,076	10.03	\$3,802,132	\$28,103,847
May-08	\$28,103,847	392,320	10.03	\$3,934,970	\$24,168,877
Jun-08	\$24,168,877	379,214	10.03	\$3,803,516	\$20,365,361
Jul-08	\$20,365,361	391,854	10.03	\$3,930,296	\$16,435,065
Aug-08	\$16,435,065	391,854	10.03	\$3,930,296	\$12,504,769
Sep-08	\$12,504,769	379,379	10.03	\$3,805,171	\$8,699,598
Oct-08	\$8,699,598	392,025	10.03	\$3,932,011	\$4,767,587
Nov-08	\$4,767,587	379,451	10.03	\$3,805,894	\$961,693
Dec-08	\$961,693	392,099	10.03	\$3,932,753	(\$2,971,060)

3. What are the differences that contributed to Load Factor Costs between the 2007 filing (\$0.25/MWH) and the 2008 filing (\$0.19/MWH) (quantifying separate factors if more than one exists)?

Answer

The decrease in Load Factor Costs is a direct result of the decrease in Ormet Load variability expected for 2008. In 2007, the incremental additions of the various pot-lines resulted in a relatively higher variability in load. During 2008 Ormet

forecasts that it will be at or near full capacity for most of the year, resulting in lower variability in load and a lower Load Factor Cost.

4. Regarding Appendix E of the filing on December 27, 2007:
 - a. How is the Reserve Margin calculated (e.g. a combination of Forecast Pool Requirements and Zonal Scaling Factor, or some other combination of factors)?
 - b. How is Column B determined (e.g. the PJM Capacity resource clearing prices for the pertinent delivery year, as posted by PJM following the reliability pricing model base residual auction, or some other figures)?

Answer

- a. The reserve margin component is calculated by PJM. It consists of two pieces: the Forecast Pool Requirement (FPR) and an AEP specific Zonal Scaling Factor. Those two factors are simply added together to arrive at the Reserve Margin found in Appendix E. Both factors change in June of each year and showed an increase in the 2008/09 planning year (which begins in June 2008) versus the 2007/08 planning year (which ends May 2008). The FPR portion went from 7.9% to 7.96%, and the AEP specific Zonal Scaling Factor went from 2.635% to 3.811%.
- b. Appendix E, Column B, the PJM Capacity resource clearing price, is the PJM Reliability Pricing Model auction clearing price posted by PJM. The auction clearing price as posted by PJM for the 2007/08 planning year was \$40.69 per MW-day. By comparison, the PJM Reliability Pricing Model auction clearing price for the 2008/09 planning year was \$111.92 per MW-day. However, as AEP Ohio stated in its previous filing for the 2007 market price, the capacity clearing price for the 2007/08 planning year will be used for both calendar year 2007 and calendar year 2008 calculations.