BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company for Approval of its Program Portfolio Plan and Request for Expedited Consideration.	))))	Case No. 09-1089-EL-POR
In the Matter of the Application of Ohio Power Company for Approval of its Program Portfolio Plan and Request for Expedited Consideration.	))))	Case No. 09-1090-EL-POR

DIRECT TESTIMONY OF KEVIN M. MURRAY ON BEHALF OF INDUSTRIAL ENERGY USERS-OHIO

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Attorneys for Industrial Energy Users-Ohio

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INDEX

KMM-2 - Volume 1: Appalachian Power Co – Virginia; 2009 to 2013 DSM Action Plan

KMM-3 - Benchmarking AEP-Ohio Portfolio Plan Against Pennsylvania Portfolio Plans to Meet Act 129 Requirements

KMM-4 - Average Variable Distribution Revenues for Commercial and Industrial Customers

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I. INTRODUCTION

Q1. Please state your name and business address.

A1. My name is Kevin M. Murray. My business address is 21 East State Street, 17th Floor, Columbus, Ohio 43215-4228.

Q2. By whom are you employed and in what position?

A2. I am a Technical Specialist for McNees Wallace & Nurick LLC ("McNees"), providing testimony on behalf of the Industrial Energy Users-Ohio ("IEU-Ohio").

Q3. Please describe your educational background.

A3. I graduated from the University of Cincinnati in 1982 with a Bachelor of Science degree in Metallurgical Engineering.

Q4. Please describe your professional experience.

A4. I have been employed by McNees for 13 years where I focus on helping IEU-Ohio members address issues that affect the price and availability of utility services. I have also been actively involved, on behalf of commercial and industrial customers, in the formation of regional transmission operators and the organization of regional electricity markets from both the supply-side and demand-side perspective. I serve as an end-use customer sector representative on the Midwest ISO ("MISO") Advisory Committee and I have been actively involved in MISO working groups that focus on various issues since 1999. Prior to joining McNees, I was employed by the law firm of Kegler, Brown, Hill & Ritter ("KBH&R") in a similar capacity. Prior to joining KBH&R, I spent 12 years with The Timken Company, a specialty steel and roller bearing manufacturer. While at The Timken Company, I worked within a group that focused on meeting the electricity and natural gas requirements for facilities in the United States. I also spent several years in supervisory positions within The Timken Company's steelmaking operations.

Q5. Have you previously testified before the Public Utilities Commission of Ohio ("Commission")?

A5. Yes. I have previously testified in the proceeding before the Commission to consider the Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company's (collectively "FirstEnergy") application for approval of a market rate offer ("MRO") to conduct a competitive bidding process for standard service offer generation supply, Case No. 09-906-EL-SSO.

I have also previously submitted testimony in FirstEnergy's electric security plan ("ESP") proceeding at the Commission (Case No. 08-935-EL-SSO) and in FirstEnergy's proceeding (Case No. 08-936-EL-SSO) requesting approval of an MRO. I submitted testimony in the Columbus Southern Power Company and Ohio Power Company ESP proceedings at the Commission (Case Nos. 08-917-EL-SSO and 08-918-EL-SSO). I also submitted testimony in Duke Energy Ohio's ESP proceeding at the Commission (Case No. 08-920-EL-SSO) as well as the Dayton Power & Light Company's ESP proceeding at the Commission (Case No. 08-1094-EL-SSO). As a result of a Stipulation and Recommendation in Case No. 08-920-EL-SSO, my testimony was not offered.

I have also previously submitted testimony in the FirstEnergy electric distribution companies' rate increase cases (Case Nos. 07-551-EL-AIR, *et al.*). However, on February 11, 2008, a Stipulation and Recommendation supported by many of the parties in those proceedings was submitted. The Stipulation and Recommendation resolved many of the contested issues in the proceedings. On January 21, 2009, the Commission issued an Opinion and Order that adopted the Stipulation and Recommendation. A provision in the Stipulation and Recommendation provided that my testimony in those proceedings would not be offered.

Q6. What is the purpose of your testimony?

A6. The purpose of my testimony is to recommend changes to Columbus Southern Power Company's ("CSP") and Ohio Power Company's ("OPC" and collectively "AEP-Ohio") three-year Program Portfolio Plan ("Portfolio Plan") and explain why the recommended changes should be adopted by the Commission. As discussed further in my testimony, AEP-Ohio's proposed Portfolio Plan, when benchmarked against similar energy efficiency plans developed by other electric distribution companies, reflects spending for energy efficiency that is quite high relative to the reduction in kilowatt-hour ("kWh") usage that AEP-Ohio attributes to its proposal. The Portfolio Plan, if approved as filed, would, in my opinion, result in excessive rate increases for customers. These excessive increases are driven, in part, by AEP-Ohio's request to treat shared savings and lost distribution revenues as a cost of complying with Ohio's energy efficiency and peak demand reduction portfolio obligations and the proposed amount of such "cost" that AEP-Ohio attributes to shared savings and lost distribution revenues. Additionally, I regard the proposed level of funding to be excessive because the Portfolio Plan ignores lower cost compliance options. The Portfolio Plan should not be approved and the Commission should direct AEP-Ohio to modify its Portfolio Plan.

II. BENCHMARKING AEP-OHIO'S PORTFOLIO PLAN

Q7. Please describe the review and analysis that you conducted on AEP-Ohio's Portfolio Plan.

A7. I conducted a high level analysis to compare AEP-Ohio's Portfolio Plan to other, similar energy efficiency plans of utilities to determine whether it is comparable or if there are significant differences. Based upon my evaluation, I conclude that, if approved as filed, AEP-Ohio's Portfolio Plan will result in higher costs to Ohio customers to achieve similar energy efficiency targets when compared to the energy efficiency plans that I used to benchmark AEP-Ohio's Portfolio Plan. Based on my initial high level comparison, I conducted further, targeted analysis on a few aspects of the Portfolio Plan discussed later in my testimony and recommend changes to mitigate the high costs of AEP-Ohio's Portfolio Plan.

Given the limited time I had available to review and benchmark AEP-Ohio's Portfolio Plan, I was able to identify a few specific deficiencies in AEP-Ohio's Portfolio Plan and recommend changes that the Commission should adopt. However, my failure to recommend additional changes to AEP-Ohio's Portfolio Plan should not be construed as my or IEU-Ohio's support for the other elements of AEP-Ohio's Portfolio Plan.

Q8. Please describe how you benchmarked the Portfolio Plan against similar energy efficiency plans developed by other utilities.

A8. I benchmarked the Portfolio Plan against a similar plan submitted to the Virginia State Corporation Commission ("Virginia Commission") by Appalachian Power Company Virginia ("APCO"), an American Electric Power operating company. I also benchmarked the Portfolio Plan against energy efficiency plans developed by a number of electric utilities in Pennsylvania to comply with Act 129 of 2008 ("Act 129").

Q9. Does the State of Virginia require utilities to implement energy efficiency portfolios?

A9. Yes. It is my understanding that, in 2007, the Virginia General Assembly approved and the Governor signed into law SB 1416 which modified a number of

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the statutory provisions governing the regulation of electric utilities. Among other provisions, the bill required the Virginia Commission to complete a proceeding by December 15, 2007 to develop a plan to identify and implement demand-side management, conservation, energy efficiency, load management, real-time pricing, and consumer education programs in order to achieve, by 2022, a stated goal of reducing the consumption of electric energy by retail customers by 10% of the amount consumed by such customers in 2006.

Q10. Has there been more recent action in Virginia regarding energy efficiency?

A10. Yes. It is my understanding that last year Virginia enacted Chapter 855 (Senate Bill 1348) and Chapter 752 (House Bill 2531) of the 2009 Acts of Assembly, effective July 1, 2009. The legislation required the Virginia Commission to conduct a formal public proceeding including an evidentiary hearing for the purpose of determining achievable, cost-effective energy conservation and demand response targets that can realistically be accomplished in Virginia through demand-side management portfolios administered by each electric utility in the state. The Virginia Commission was required to and did report its findings to the Governor and General Assembly by November 15, 2009. As stated in the report, the Virginia Commission does not recommend any specific mandate to utilities regarding particular targets to be achieved, programs to be required, specific technologies to be used, or narrowly-tailored analyses to be performed. Unless otherwise directed by the General Assembly, the Virginia Commission stated that it intends to evaluate proposals on a case-by-case basis with the anticipation that each utility subject to its jurisdiction will work towards achieving

Virginia's consumption reduction goal individually, with programs and technologies tailored to the specific needs of the utility and its customers.

Q11. Has the Virginia Commission completed these requirements?

A11. Yes. The Virginia Commission conducted evidentiary proceedings in SCC Case No. PUE-2009-00023 that culminated in a report to the Governor and General Assembly. A copy of the report is attached to my testimony as Exhibit KMM-1. Due to their size, I have not included the Appendices to the report, which consist of testimony and comments received by the Virginia Commission in the proceeding as part of Exhibit KMM-1, except for the comments and testimony of APCO, which are in Appendix B to the report. The complete report is available via the Internet at http://www.scc.virginia.gov/comm/reports/dsm_2009.pdf.

Q12. Did APCO submit an energy efficiency plan for consideration by the Virginia Commission?

A12. Yes. As part of comments submitted by APCO on June 30, 2009 in SCC Case No. PUE-2009-00023, APCO submitted a DSM Action Plan and a DSM Market Potential Study, including appendices. I have included a copy of the DSM Action Plan attached to my testimony as Exhibit KMM-2.

Q13. Who prepared the APCO DSM Action Plan?

A13. According to the information submitted by APCO, the APCO DSM Action Plan was prepared by Summit Blue Consulting, LLC. The lead author from Summit Blue Consulting, LLC was Randy Gunn, who is also the lead author of the AEP-Ohio Energy Efficiency and Peak Demand Action Plan ("AEP-Ohio Action Plan") submitted in this proceeding (Exhibit JFW-2, Volume 1 to the direct testimony of Jon F. Williams).

Q14. Are the APCO DSM Action Plan and the AEP-Ohio Action Plan similar?

A14. Yes. Although Virginia is operating under energy conservation goals rather than mandates as exist in Ohio, the APCO DSM Action Plan and the AEP-Ohio Action Plan are very similar. In fact, in some portions of the report, the only difference is the utility company's name.

A comparison of the overview of program plans for the consumer and business sectors that appears on pages 19-20 of the APCO DSM Action Plan with the overview of program plans for the consumer and business sectors that appears on pages 43-45 of the AEP-Ohio Action Plan also shows that the two plans are very similar. The APCO DSM Action Plan does include a residential demand response program while the AEP-Ohio Action Plan does not. In the business sector, the AEP-Ohio Action Plan includes the use of LED traffic signals as an option under the prescriptive incentives and there is no comparable provision in the APCO DSM Action Plan. The AEP-Ohio Action Plan recognizes the self-direct option available to mercantile customers. The demand response options for business customers also differ under the plans. Other than these exceptions, the plan overviews are identical.

Q15. How does the APCO DSM Action Plan and the AEP-Ohio Action Plan compare regarding projected energy savings?

A15. The level of energy savings as a percentage of kWh sales is similar, although the APCO DSM Action Plan contemplates a five-year implementation period. The APCO DSM Action Plan projects incremental annual savings as a percentage of total annual kWh sales to reach 1.41% by 2013, with cumulative savings of 492.5 gigawatt-hours ("GWh") or 492,500,000 kWh over this time period (2.8% cumulative). The AEP-Ohio Action Plan projects incremental annual savings as a percentage of total annual kWh sales to reach 1.07% by 2013, with cumulative savings of 842.3 GWh or 842,300,000 kWh over this time period (1.65% cumulative).

Q16. How do the costs of the energy efficiency programs compare between the APCO DSM Action Plan and the AEP-Ohio Action Plan?

A16. For the residential sector, which is identified as the consumer sector in the Action Plans, the projected costs are similar. The APCO DSM Action Plan projects that the overall lifetime costs of saved energy in 2009 dollars for the consumer sector will be $0.014 per kWh. In the case of AEP-Ohio, the comparable estimate projects that the overall lifetime costs of saved energy in 2009 dollars will be $0.015 per kWh. For the business sector, the cost estimates differ. The APCO DSM Action Plan projects that the overall lifetime costs of saved energy in 2009 dollars for the business sector will be $0.007 per kWh. In the case of AEP-Ohio, the comparable plan estimate indicates that the overall lifetime costs of saved energy in 2009 dollars will be $0.014 per kWh. In other words, in the business sector, AEP-Ohio is proposing to spend twice as much in Ohio as APCO would spend in Virginia to achieve comparable levels of energy efficiency, notwithstanding the fact the Action Plans in both states are very similar.

Q17. Have you performed any additional benchmarking of AEP-Ohio's Action Plan?

A17. Yes. As an additional check, I compared AEP-Ohio's Action Plan against energy efficiency plans developed by electric utilities in Pennsylvania to comply with the portfolio requirements adopted by that state as part of what I understand is Act 129.

Q18. What is your understanding of the requirements contained in Pennsylvania's Act 129?

A18. In general terms, it is my understanding that Act 129 modifies the statutes applicable to the regulation of electric utilities in Pennsylvania. Specific provisions of Act 129 address energy efficiency requirements for electric distribution companies by requiring each electric distribution utility to develop a plan to achieve energy efficiency and peak demand reductions. It is my understanding that Act 129 requires these utilities to each reduce total annual weather-normalized consumption of the retail customers by a minimum of 1% by May 31, 2011. By May 31, 2013, total annual weather-normalized consumption of the retail customers of each electric distribution company is to be reduced by a minimum of 3% and the peak demand must be reduced by 4.5%. Thus, Pennsylvania's requirements are initially more aggressive than Ohio's.

Each electric distribution utility was required to file its initial plan to comply with Act 129 for approval by the Pennsylvania Public Utility Commission ("PaPUC") by July 1, 2009. It is also my understanding that by November 30, 2013 and every five years thereafter the PaPUC is to conduct an analysis of the relative cost and benefits of energy efficiency plans implemented by electric distribution utilities and determine if additional incremental reductions in consumption should be required.

Q19. Has the PaPUC addressed the energy efficiency plans that were submitted by Pennsylvania electric distribution companies?

A19. Yes. It is my understanding that the PaPUC issued a series of orders accepting and in many cases modifying the energy efficiency plans in mid October 2009. The electric distribution companies were directed to file amended plans to reflect the PaPUC's orders. Those amended energy efficiency plans were filed in December 2009 and are presently pending before the PaPUC.[1] The relevant Docket Nos. are as follows:

Allegheny Power – Docket No. M-2009-2093218
Duquesne Light – Docket No. M-2009-2093217
Metropolitan Edison Company – Docket No. M-2009-2092222
Pennsylvania Electric Company – Docket No. M-2009-2112952
Pennsylvania Power Company – Docket No. M-2009-2112956
PECO Energy Company – Docket No. M-2009-2093215
PPL Electric Utilities – Docket No. M-2009-2093216

[1] On January 28, 2010, the PaPUC issued an order accepting in part and rejecting in part revised plans submitted by Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company.

Q20. Do the filed energy efficiency plans in Pennsylvania include estimates of the cost for compliance with the energy and peak demand reduction requirements in Act 129?

A20. Yes, they do. The estimated compliance costs and expected reductions in annual energy consumption for each Pennsylvania electric distribution company are shown on Exhibit KMM-3. The reductions in annual energy consumption shown on Exhibit KMM-3 reflect the annualized reductions in energy usage that are expected to be achieved by a deadline of May 31, 2013 in Act 129. The forecasted reductions from baseline energy use range from a low of 3.1% to a high of 4.07%. In order to achieve this level of annualized energy reductions, the plans filed in Pennsylvania indicate that electric distribution companies expect to implement portfolio plans with projected total resource cost values ranging from 1.81 to 4.10, with an average total resource cost value of 2.64.

Exhibit KMM-3 also benchmarks AEP-Ohio's Action Plan against the compliance plans that have been submitted in Pennsylvania. By the end of AEP-Ohio's Action Plan, AEP-Ohio expects to achieve annualized energy reductions of 842,300,000 kWh, which reflects a reduction from its annual baseline use of 1.65%. However, AEP-Ohio's Action Plan is projected to have a total resource cost value of 1.80, which is lower than any of the portfolio plans filed in Pennsylvania, and significantly below the average total resource cost value in Pennsylvania. Thus, on a relative basis, AEP-Ohio's Portfolio Plan will cost more, but achieve less, than similar plans in Pennsylvania.

Q21. Why are these benchmarks appropriate and relevant?

A21. APCO is an appropriate comparison and a suitable benchmark because it is an AEP-Ohio affiliate that is operated as part of the American Electric Power pool, which means that it is operated under the same system as AEP-Ohio, which was built to serve pool needs, and has common support from service company functions. AEP described its pooling agreement in its 2009 Annual Form 10-K Report filed with the Securities and Exchange Commission ("SEC"), which is available at: http://investor.shareholder.com/aep/secfiling.cfm?filingID=4904-09-40. The 10-K Report states:

> The AEP System is an integrated electric utility system. As a result, the member companies of the AEP System have contractual, financial and other business relationships with the other member companies, such as participation in the AEP System savings and retirement plans and tax returns, sales of electricity and transportation and handling of fuel. The companies of the AEP System also obtain certain accounting, administrative, information systems, engineering, financial, legal, maintenance and other services at cost from a common provider, AEPSC.[2]

Additionally, as previously noted above, the APCO DSM Action Plan and the AEP-Ohio Action Plan were both prepared by Summit Blue Consulting, LLC and had the same lead author. The energy efficiency plans developed by electric utilities in Pennsylvania to comply with its portfolio requirements are appropriate and relevant for comparison and benchmarking because Pennsylvania is a neighboring state that has "customer choice" like Ohio and similar portfolio mandates. Additionally, most Pennsylvania utilities are members of PJM Interconnection, LLC ("PJM") like AEP-Ohio. Finally, the comparisons are

[2] AEP 2009 10-K Report at 1.

relevant to demonstrate that the amount that AEP-Ohio proposes to spend for energy efficiency is quite high relative to the reduction in kWh usage that AEP-Ohio attributes to its proposal.

III. CUSTOMER RATE IMPACTS

Q22. Are there estimates of the rate impacts to customers that would result if AEP-Ohio's Action Plan is approved?

A22. Yes. The Stipulation and Recommendation ("Stipulation") submitted on November 12, 2009 in this proceeding includes, in Attachment A, typical bill comparisons for customers of both CSP and OPC if the proposed Energy Efficiency and Peak Demand Reduction ("EE/PDR") Rider rates are approved. Based on this Attachment, it is my understanding that the parties supporting the Stipulation have represented that the Stipulation will result in total electric bill increases for customers in the range of 0.4% to 3.4% for CSP customers and 0.4% to 4.0% for OPC customers.

Q23. Are these indicated total electric bill increases attributed to the proposed EE/PDR Rider rates the only increases facing CSP and OPC customers?

A23. No. As a result of the Commission's January 7, 2010 order in Case Nos. 09-872-EL-FAC and 09-873-EL-FAC, *et al.,* CSP customers saw, on average, a 6% increase in the total amount of their January 2010 electric bills. OPC customers saw, on average, a 7% increase in the total amount of their January 2010 electric bills. Customer bills increased additionally as a result of the Commission's January 7, 2010 order in Case No. 09-1095-EL-RDR. CSP customers experienced an additional 10.52701% increase in the distribution charges in their January 2010 electric bills while OPC customers experienced an additional 8.33091% increase in the distribution charges in their January 2010 electric bills. These increases are compounding increases in CSP and OPC rates that have occurred each year since 2006.

Q24. Are the total electric bill increases indicated in the Stipulation connected in part to proposals regarding shared savings and recovery of distribution revenue that might be reduced as a result of reductions in energy sales?

A24. Yes. AEP-Ohio has requested approval and the Stipulation recommends that the Commission permit shared savings and lost distribution revenues to be collected through the EE/PDR Rider, which increases the overall revenue requirement to be collected through the EE/PDR Rider. Amounts for these components to the EE/PDR Rider have been included in the proposed Rider rates referenced above.

Q25. Is there any reason offered for the inclusion of these components in the EE/PDR Rider rates?

A25. In his direct testimony, Jon F. Williams discusses the shared savings mechanism and states it is an incentive intended to encourage AEP-Ohio to exceed compliance with statutory benchmarks. Additionally, Mr. Williams suggests that many jurisdictions recognize the need to include a utility return component comparable to shared savings to make investments in energy efficiency programs comparable to supply-side alternatives. Mr. Williams does not address lost distribution revenues in his testimony.

David M. Roush addresses both shared savings and lost distribution in his direct testimony. However, Mr. Roush's testimony addresses the amount of shared savings and lost distribution revenues to be collected through the EE/PDR Rider, and not the question of whether it is appropriate to collect shared savings and lost distribution revenues through the EE/PDR Rider.

Q26. Is the proposal to include a component for lost distribution revenues in the EE/PDR Rider reasonable?

A26. No. AEP-Ohio has not presented any information to support its request to increase EE/PDR Rider rates to recover lost distribution revenues. CSP's last distribution rate case was in 1991, 19 years ago, in Case No. 91-418-EL-AIR. OPC's last distribution rate case was in 1994, 16 years ago, in Case No. 94-996-EL-AIR. There has been no evidence presented to demonstrate that recovery of lost distribution revenues is necessary in order to allow either CSP or OPC an opportunity to recover its cost of providing distribution service including a fair and reasonable return on used and useful distribution rate base.

There are multiple reasons why it is inappropriate to approve recovery of lost distribution revenues. It is generally not appropriate to adjust rates outside of being examined in a rate case because the Commission does not have the ability to look at all the other variables that affect the calculation of the utility's overall revenue requirement. A mechanism to recover lost distribution revenues reduces the utility's overall risk, which suggests that there should be a downward adjustment to a utility's authorized rate of return contemporaneously to the introduction of any lost revenue recovery mechanism. It may be appropriate to deviate from this general rule against adjusting rates outside of a rate case if there are financial indicators that provide strong reasons to deviate. For example, if the Commission had evidence that a utility had experienced a strong drop-off in sales, this could provide some justification why a rate adjustment outside of a rate case was appropriate. In announcing its fourth quarter 2009 earnings, American Electric Power Company, Inc. indicated it expected its overall electricity consumption by retail customers to grow by 1.6% in 2010 over 2009 levels, with a 5% increase among industrial customers.

In this instance, AEP-Ohio's proposal to recover lost revenues also fails to recognize that AEP-Ohio recovers most of its distribution revenue requirement from larger commercial and industrial customers through fixed monthly customer charges and demand charges with ratchets. Thus, simply assuming AEP-Ohio will experience lost distribution revenues if commercial and industrial customers reduce energy usage is not correct.

Mr. Roush's testimony (and specifically Exhibit DMR-3, page 2 of 3 and page 3 of 3) shows that lost revenues were calculated for commercial and industrial customers by dividing total annual base distribution revenues by billed energy to derive average distribution revenues. For CSP, this results in annual average distribution revenues of $0.0094735 per kWh. This amount was then multiplied by the estimated energy savings of 45,184,000 per kWh to estimate lost revenues of $428,051 for CSP. The same calculation for OPC results in annual average distribution revenues of $0.0070259 per kWh. This amount was then multiplied by the estimated energy savings of 61,995,000 per kWh to estimate lost revenues of $437,245 for OPC.

The value Mr. Roush has used to reflect average distribution revenues from commercial and industrial customers significantly overstates the variable distribution charges (i.e. revenues to AEP-Ohio that fluctuate based upon customer usage) applicable to commercial and industrial customers. The distribution energy charges applicable to AEP-Ohio commercial and industrial customers are a combination of fixed monthly customer charges, demand charges subject to ratchets, and variable distribution charges based upon energy usage. However, most base distribution revenues are collected through monthly customer charges and demand charges. Thus, the calculations performed by Mr. Roush incorrectly presume that revenues currently collected by AEP-Ohio through fixed monthly customer charges or demand charges subject to ratchets will decrease due to reduced customer energy use.

I have prepared Exhibit KMM-4 which shows what average variable distribution revenues are for commercial and industrial customers of AEP-Ohio. For CSP, the average variable distribution revenues are $0.000744 per kWh. For OPC, the average variable distribution revenues are $0.0004496 per kWh. Therefore, even if the Commission were to determine that it may be appropriate to deviate from the general rule against adjusting rates outside of a rate case, Mr. Roush's estimated lost distribution revenues are excessive and significantly overstate potential lost revenues.

Q27. What are your conclusions regarding AEP-Ohio's Action Plan?

A27. AEP-Ohio is proposing to spend significantly higher amounts on energy efficiency and peak demand reductions than electric distribution utilities implementing similar plans in other states and estimates it will achieve less in terms of efficiency gains and peak demand reductions. In others words, AEP-Ohio is getting less bang for its buck (or in this case customers' bucks) than other utilities. This will significantly impact customers' bills at a time when they have already seen significant bill increases in January 2010. For these reasons, the Commission must act to mitigate the rate impacts to customers by directing AEP-Ohio to modify its Action Plan to adopt lower cost options as described later in my testimony.

IV. LOWER COST COMPLIANCE OPTIONS

Q28. Does AEP-Ohio's Portfolio Plan omit lower cost compliance options?

A28. Yes. AEP-Ohio has proposed a commercial and industrial demand response program to attain peak demand reductions.[3] As proposed, the program will tie compliance to expanding the CSP load served under Schedule IRP-D.[4] AEP-Ohio projects that securing 30.4 MW of peak demand reductions through this approach in 2010 will cost CSP's customers $3,371,250, consisting of $2,610,000 in customer incentives and $761,250 in administrative costs. In 2011, AEP-Ohio proposes to secure 32 MW of peak demand reductions by

[3] Jon F. Williams Testimony, Exhibit JFW-2 (Volume 1) at 120-124.

[4] *Id.* at 120.

charging customers $3,545,625, consisting of $2,745,000 in incentives and $800,625 in administrative costs.[5] The projected customer costs associated with this compliance strategy are equivalent to $110,896 per MW of peak demand reduction in 2010 and $110,801 per MW of peak demand reduction in 2011.

The rules recently adopted by the Commission to implement Ohio's portfolio requirements permit a customer's peak demand reduction capability to count towards an electric distribution utility's portfolio obligation if the customer's peak demand reduction capability is recognized as a capacity resource under the tariff of a regional transmission organization ("RTO") which has been approved by the Federal Energy Regulatory Commission ("FERC"), and if it is committed to the electric distribution company for purposes of meeting its portfolio requirements. Since AEP-Ohio is a member of PJM, this allows a customer to be recognized as a capacity resource by PJM, and to be counted by AEP-Ohio towards its portfolio obligation so long as the customer commits its capabilities to AEP-Ohio.

Demand resources are recognized by PJM as a capacity resource if they clear in periodic base residual auctions conducted by PJM as part of its reliability pricing model ("RPM"). Through the 2011-2012 planning year, demand response can also qualify as a capacity resource through the interruptible load for reliability ("ILR") option. A planning year runs from June 1 of a given year through May 31 of the following calendar year.

[5] Jon F. Williams Testimony, Exhibit JFW-2 (Volume 1) at page 131 of 163 identifies total 2011 peak demand expenditures of $3,434,625. However, this total does not equal the sum of incentives and administrative costs listed on this page.

When a demand response resource is recognized by PJM as a capacity resource, the demand resource is paid the clearing price for capacity in the planning year. For PJM's 2012/2013 base residual auction, the zonal clearing price for the RTO zone in which AEP-Ohio is located was $16.46 per MW-day or $6,007.90 per MW-year.[6] For the 2011/2012 base residual auction, the comparable zonal clearing price was $110.04 per MW-day or $40,164.60 per MW-year. For the 2010/2011 base residual auction, the comparable zonal clearing price was $174.29 per MW-day or $63,615.85 per MW-year.

When demand response clears as a capacity resource in PJM, it has the effect of displacing higher cost generation offers that could otherwise clear in the auction. Increasing the amount of generation that clears will work to lower the overall price of capacity in the RTO zone. Thus, customers in the zone will benefit from lower capacity prices.

Since customer demand resources are paid the zonal clearing price for capacity by PJM, AEP-Ohio could comply with Ohio's peak demand reduction requirements without incurring any direct costs that would then need to be recovered through the EE/PDR Rider by relying upon a strategy that allows its customers to participate as a capacity resource in PJM where the customers commit their capabilities to AEP-Ohio. In other words, AEP-Ohio's Action Plan ignores an opportunity to achieve compliance at a cost which is nearly $7 million less than the proposal it has asked the Commission to approve. It also fails to

[6] The results of recent PJM RPM auctions are posted on PJM's website at: http://www.pjm.com/markets-and-operations/rpm/rpm-auction-user-info.aspx. (last accessed on December 11, 2009).

address a directive in the March 18, 2009 concurring opinions of Chairman Alan R. Schriber and Commissioner Paul A. Centolella in Case No. 08-918-EL-SSO that encouraged AEP-Ohio to work with PJM, the Commission, and interested stakeholders to ensure that predictable consumer demand response is recognized as a reduction in capacity that it must carry under PJM market rules.

V. MERCANTILE CUSTOMER COMMITMENTS

Q29. Has AEP-Ohio developed a process to allow self-directed mercantile customer energy efficiency and peak demand reduction capabilities towards AEP-Ohio's portfolio requirements?

A29. Yes. Mr. Williams discusses two options that AEP-Ohio has proposed for self-directed mercantile customer projects. Under the first option, the customer continues to pay the EE/PDR Rider, but receives an up-front payment from AEP-Ohio proportional to the amount the customer would have paid under the EE/PDR Rider if the customer had chosen the exemption available under the second option. Under the second option, the customer receives an exemption from the EE/PDR Rider for the period of time that the committed savings are proportional to AEP-Ohio's benchmark of required energy reductions.

Q30. Do you support AEP-Ohio's proposal to offer two options for self-directed mercantile customer projects?

A30. Yes. I believe the proposal is necessary to reasonably encourage mercantile customers to commit self-directed projects towards AEP-Ohio's portfolio requirements.

VI. OVERARCHING CONCERNS

Q31. Do you have suggestions regarding the overall direction of the compliance approach that is reflected in AEP-Ohio's Action Plan and the Stipulation?

A31. Yes, I do. From my perspective, Ohio's portfolio requirements appear to be designed to reduce the energy intensity of Ohio's economy over a period of 20 years or more while not compromising on productivity or economic growth objectives. The emphasis in the AEP-Ohio Action Plan and the Stipulation on the other hand is, perhaps understandably, on compliance with benchmarks. When the focus is on utility compliance with benchmarks, the wants and needs of customers and the overarching public policy objective may have less influence in the structural design and implementation efforts regardless of how many collaborative meetings are held or the number of stakeholders who have the time and resources to participate. The focus I see in the proposal offered by AEP-Ohio and the Stipulation may, for example, result in missing an important opportunity to build a more sustainable system which is focused on a longer term desire to integrate and leverage continuous improvement programs used by businesses to help them compete within their corporate family and within their industry sectors to match the upward sloping compliance curve that is part of the Ohio portfolio requirements while reducing the intensity of Ohio's economy. Compliance plans that are based on a three-year snapshot may not provide the best platform for effectively engaging customers, particularly in view of the substantial opportunities in Amended Substitute Senate Bill 221 ("SB 221") to rely on the customer-sited capabilities of mercantile customers.

VII. CONCLUSION

Q32. What are your conclusions regarding the Stipulation?

A32. The Stipulation, which requests that the AEP-Ohio Action Plan be adopted, does not benefit consumers and is contrary to the public interest for several reasons. AEP-Ohio's Action Plan would not result in the lowest cost compliance plan for the reasons discussed in my testimony. Additionally, it has not been demonstrated that it is appropriate to allow AEP-Ohio to collect lost distribution revenues through the EE/PDR Rider. For these reasons, the Commission should not adopt the Stipulation

Q33. Does this conclude your direct testimony?

A33. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Direct Testimony of Kevin M. Murray* was served upon the following parties of record this 11th day of February 2010, *via* electronic transmission, hand-delivery or first class mail, postage prepaid.

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