FILE

OCC EXHIBIT _____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company.	)))	Case No. 09-872-EL-FAC Case No. 09-873-EL-FAC

PUBLIC VERSION

DIRECT TESTIMONY OF DANIEL J. DUANN, Ph.D.

On Behalf of
The Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485
(614) 466-8574

August 16, 2010

Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.

A1. My name is Daniel J. Duann. My business address is 10 West Broad Street, Suite 1800, Columbus, Ohio, 43215-3485. I am a Senior Regulatory Analyst with the Office of the Ohio Consumers' Counsel ("OCC").

Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A2. I received my Ph.D. degree in public policy analysis from the Wharton School, University of Pennsylvania. I also have a M.S. degree in energy management and policy from the University of Pennsylvania and a M.A. degree in economics from the University of Kansas. I completed my undergraduate study in business administration at the National Taiwan University, Taiwan, Republic of China.

I was a Utility Examiner II in the Forecasting Section of the Ohio Division of Energy ("ODOE"), Ohio Department of Development, from 1983 to 1985. From 1985 to 1986, I was an economist with the Center of Health Policy Research at the American Medical Association in Chicago. In 1986, I joined the Illinois Commerce Commission ("ICC") as a senior economist in its Policy Analysis and Research Division.

I was employed as a senior institute economist at the National Regulatory Research Institute ("NRRI") at The Ohio State University in August 1987. My work at NRRI involved areas of utility regulation and energy policy.

I was an independent business consultant from 1996 to 2007. I joined the OCC in January 2008 as a Senior Regulatory Analyst. My current primary responsibilities are to assist OCC's participation in regulatory proceedings involving rate cases, cost recovery filings, and service reliability by electric, gas, and water utilities. A list of my professional publications is attached as Attachment DJD-A.

Q3. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY OR TESTIFIED BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?

A3. Yes. I submitted expert testimony before the Public Utilities Commission of Ohio ("PUCO" or "Commission") in four recent utility rate cases involving electric and water companies.[1] I testified at hearing as an expert in Case No. 09-391-WS-AIR involving Ohio American Water Company. Stipulations were reached in two other cases. A case in which I have submitted testimony that involves rates for the Aqua Ohio Lake Erie Division is pending before the Commission.

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[1] *In re the Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan*, Case No. 08-1094-EL-SSO, *In re the Application of Ohio American Water Company to Increase Its Rates for Water and Sewer Service Provided to Its Entire Service Area*, Case No. 09-391-WS-AIR, *In re the Application of Aqua Ohio, Inc. for Authority to Increase its Rates and Charges in its Masury Division*, Case No. 09-560-WW-AIR, and *In re the Application of Aqua Ohio, Inc. for Authority to increase its Rates and Charges in its Lake Erie Division*, Case No. 09-1044-WW-AIR.

Q4. HAVE YOU PREVIOUSLY TESTIFIED OR SUBMITTED TESTIMONY BEFORE OTHER ADMINISTRATIVE, REGULATORY, OR LEGISLATIVE AGENCIES?

A4. Yes. I testified before the Ohio Division of Energy ("ODOE") on behalf of the ODOE Staff regarding the Long-Term Forecast Report of the Cleveland Electric Illuminating Company (Case No. CEI-83-E) and submitted testimony on the Long-Term Forecast Report of The Toledo Edison Company (Case No. TEC-84-E) in 1984 and 1985. I also testified before the Illinois Commerce Commission in 1987 on behalf of the ICC Staff regarding the divestiture of three nuclear power plants by the Commonwealth Edison Company and related matters (Case Nos. 87-0043, 87-0044, 87-0057, 87-0096). In 1989, I testified as an expert analyst before the California Legislature, Senate Committee on Energy and Public Utilities, regarding pending legislation (California SB 769) that would have prohibited an electric utility from purchasing electricity from a private energy producer fully or partially owned by a subsidiary or affiliate of the utility.

Q5. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF YOUR TESTIMONY?

A5. I have reviewed the *Report of the Management/Performance and Financial Audits of the FAC of the Columbus Southern Power Company and the Ohio Power Company* filed in Case Nos. 09-0872-EL-FAC and 09-873-EL-FAC (the "Management and Financial Audits Report" or "Audits Report"). The Management and Financial Audits Report was prepared by Energy Ventures

Analysis, Inc. and its subcontractor, Larkin & Associates PLLC (the "Auditor"). I have also reviewed relevant responses by Columbus Southern Power Company ("CSP"), Ohio Power Company ("OPC" or "OPCO" or "Ohio Power"), and American Electric Power Service Company ("AEPSC," along with CSP and OPC, referred to as "AEP" or "Companies") to the interrogatories, data requests, and requests for the production of documents that were submitted to the Companies by the OCC and other parties in this case. I have reviewed other materials related to this case that are mentioned in my testimony.

Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A6. My testimony primarily focuses on the proper regulatory treatment of the [redacted] that was obtained by the Companies from a Settlement Agreement and Mutual Release ("Settlement Agreement") with the [redacted].[2] I conclude that the current customers of Ohio Power are not receiving the benefits they should receive from the circumstances surrounding the Settlement Agreement. I recommend a credit of the fair net present value of the [redacted] as an offset against the fuel cost deferral balance be granted to the customers of OPC immediately. Then a regulatory asset of the same amount would be authorized with the annual carrying charge limited to the current cost of long-term debt of Ohio Power. The length of time under which this regulatory asset can incur carrying charges is decided by

[2] See Management and Financial Audits Report at 2-20 to 2-22.

the earliest of the following three dates: (1) [redacted] by Ohio Power; (2) two years from the date the Commission issues its Finding and Order in this proceeding; and (3) January 1, 2013.

In addition, I recommend the $[redacted] as a result of the Settlement Agreement be fully credited to OPC's customers through the FAC in the 2009 to 2011 period. I also provide comments on several findings and recommendations contained in the Management and Financial Audits Report.

Q7. DO YOU SHARE THE CONCERNS EXPRESSED IN THE AUDITS REPORT REGARDING THE MISMATCH OF COSTS AND PROCEEDS ASSOCIATED WITH THE COAL CONTRACT BUYOUT AND RENEGOTIATION BETWEEN AEP AND ITS COAL SUPPLIERS?

A7. Yes. I share the Auditor's concerns about the mismatch of costs and proceeds of the coal contract adjustments in 2007 and 2008.[3] It is my opinion that a finding on the appropriateness of the accounting of the FAC costs and the prudence of management decisions of AEP cannot be made without an explicit and extensive review of their effect on the customers of AEP. In this regard, I am not convinced, after reviewing the Management and Financial Audits Report, that

[3] Id., at 2-21 to 2-24.

AEP, as a provider of utility service, was doing a good job in protecting the interests of its customers. The Auditor, based on my reading of the Management and Financial Audits Report, has not concluded those coal contract buyout and renegotiations were prudent. For example, while the Auditor states that "AEPSC did an exceptional job during this period particularly with those suppliers that faced financial hardship,"[4] the Audits Report also indicates that "While it is hard to tie the under-recovery to specific events, the extraordinary increase as a result of a renegotiation with one supplier and a contract buyout help to explain the large under-recovery."[5]

Q8. DO YOU SUPPORT THE AUDITOR'S RECOMMENDATIONS CONTAINED IN THE MANAGEMENT AND FINANCIAL AUDITS REPORT?

A8. I generally support the six Management Audit Recommendations and six Financial Audit Recommendations in the Management and Financial Audits Report.[6] I further recommend that the Commission provide the necessary regulatory directives and remedies for the full and timely implementation of the Auditor's recommendations.

[4] See Management and Financial Audits Report at 1-4.

[5] Id., at 1-5, footnote 3.

[6] Id. at 1-6 to 1-9.

Q9. WHILE GENERALLY SUPPORTING THE RECOMMENDATIONS, DO YOU HAVE SPECIAL CONCERNS REGARDING ANY RECOMMENDATIONS IN THE MANAGEMENT AND FINANCIAL AUDITS REPORT?

A9. Yes. As stated above, there was a clear mismatch of the costs and proceeds regarding the coal contract buyout and negotiation entered by AEP in 2007 and 2008. The Auditor raised this issue, but has not provided any remedy. In Management Audit Recommendation No. 1, the Auditor states that "EVA believes that the PUCO should review whether any proceeds from the Settlement Agreement should be a credit against OPCO's FAC under-recovery. This buy-out is somewhat unique as it occurred during a period in which fuel cost recovery was not regulated yet the entire value received was for tons that would have been shipped during the ESP period."[7] I generally concur with this recommendation. However, I recommend that, as a matter of fairness, the Commission should direct AEP to immediately credit the fair net present value of the [redacted] against the OP FAC under-recovery and should order other regulatory remedies I propose in my testimony regarding the Settlement Agreement.[8]

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[7] Id. at 1-6.

[8] A more detailed discussion of the [redacted] can be found in Management and Financial Audits Report at 2-20 to 2-22.

Q10. PLEASE EXPLAIN THE COSTS AND PROCEEDS FOR OHIO POWER AND ITS CUSTOMERS DERIVED FROM THE [redacted] SETTLEMENT AGREEMENT.

A10. Based on the Management and Financial Audits Report, the fuel procurement for both CSP and OP is handled by AEPSC. AEPSC is also responsible for the fuel procurement for AEP's other utilities.[9] [redacted][10]

The [redacted] and the resulting Settlement Agreement and Mutual Release ("Settlement Agreement") were largely the result of a contract dispute that arose from the volatile and quickly escalating market price of coal since the middle of 2007.[11] According to the major terms of the Settlement Agreement, the added costs to AEPSC, and thus to OPC and its customers, of the [redacted], in comparison with the terms of the original contract, was in a higher cost of coal in comparison to the cost of coal under the then existing contract.[12] The Management and Financial Audits Report does not

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[9] See Management and Financial Audits Report at 2-1.

[10] See Exhibit 2-2 of the Management and Financial Audits Report at 2-3.

[11] See Management and Financial Audits Report at 2-20.

[12] Id. at 2-20 to 2-21. A brief summary of the terms of the new contract [redacted]) can be found in the Audits Report, at 2-30. The Auditor noted that "[redacted] shipped the full contract tonnage. But most of the coal went to the [redacted] station, not [redacted] and in no months was the coal quality consistent with the contracted specifications."

provide a complete analysis or estimate of the total added coal cost of the Settlement Agreement. Nevertheless, the Auditor concludes that "the 2007 buy-out of the [redacted] contract for [redacted] resulted in an increase of over $50 million in 2009 fuel expense over the contracted prices"[13] and "[a]s a result of the buy-out, OPCO ratepayers are paying significantly more for coal."[14] It is expected the higher cost of coal borne by OPC's customers as a result of the Settlement Agreement will continue at least through [redacted], possibly through [redacted].[15]

The proceeds and ownership interest provided to Ohio Power from the Settlement Agreement are in two categories:[16]

(1) [redacted] until paid; and

(2) a transfer to AEPSC or its designated affiliate from [redacted] of certain mineral and real property interests in [redacted].

[13] See Management and Financial Audits Report at 1-5.

[14] Id. at 2-21.

[15] See Management and Financial Audits Report at 2-30.

[16] See Management and Financial Audits Report at 2-21and Response to IEU-Ohio's Interrogatories First Set 1-001.

While not opining on the prudence of AEPSC' decision to enter the [redacted] and the resulting Settlement Agreement, it is my opinion that the regulatory treatment of the buyout and agreement should be for Ohio Power's customers to receive all the proceeds and ownership interest from the Settlement Agreement with [redacted] that were provided to AEP for agreeing to a much higher price of coal from [redacted] to possibly [redacted].

Q11. WHO CURRENTLY BEARS THE ADDED COSTS OF THE [redacted]***?***

A11. The customers of the Ohio Power are being asked to bear the costs.

Q12. HAVE THE CUSTOMERS OF OHIO POWER RECEIVED ALL THE PROCEEDS OR OWNERSHIP INTEREST FROM THE SETTLEMENT AGREEMENT?

A12. No. At the present time, the customers of OPC have not received the full amount of the [redacted] or any amount of proceeds from the ownership of the [redacted]. [redacted]

[17] See response to IEU-Ohio Interrogatories, First Set, 1-003.

[redacted]

As for the [redacted], Ohio Power booked the value of the [redacted] at $[redacted] million as a [redacted] in 2008.[20] AEPSC believed the [redacted] contained [redacted] million tons of clean recoverable coal with a typical washed quality of [redacted] Btu per pound and [redacted] pound SO2 per MMBtu.[21] AESPC commissioned [redacted] to perform a mine study for the [redacted] and a report was published April 2009. [redacted][23] The Auditor further concludes that "[u]sing [redacted] price forecast, the value of the reserve on a net present value basis using an [redacted] percent discount rate would be $[redacted] million."[24]

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[18] See response to IEU-Ohio Interrogatories, First Set, 1-005.

[19] See response to IEU-Ohio Interrogatories, First Set, 1-005.

[20] See response to IEU-Ohio Interrogatories, First Set, 1-001.

[21] See Management and Financial Audits Report at 2-21.

[22] See footnote 8 of the Management and Financial Audits Report.

[23] Ibid.

[24] See Management and Financial Audits Report, at 2-21.

A13. PLEASE EXPLAIN WHY OPC'S CUSTOMERS SHOULD RECEIVE ALL THE PROCEEDS FROM THE [redacted] AND RECEIVE THEM IN A TIMELY MANNER.

A13. As noted above, the customers of Ohio Power are paying the added costs associated with the Settlement Agreement. As a matter of fairness, the customers of OPC should also receive all the proceeds from the Settlement Agreement, including the cash payment by [redacted] and those from the ownership of the [redacted]. The Management and Financial Audits Report states, "That being said, the contract was an OPCO asset and the value associated with it would have flowed to OPCO ratepayers through the ESP period had there not been an early contract termination. Further, the difference between the price of the replacement coal and the contract price is one factor behind the large OPCO FAC under-recovery. Equity suggests that the PUCO consider whether some of the realized value should be credited against the under-recovery."[25] I agree with the Auditor on this issue.

I recommend the full $[redacted] million received from [redacted] under the Settlement Agreement be credited to Ohio Power's customers through the 2009 to 2011 FAC. In addition, any unrealized proceeds for assets that have not been [redacted] such as the [redacted] should also be allocated fully to the customers of

[25] Id. at 2-22.

OPC. Furthermore, as the customers of OPC are paying for a large and increasing fuel cost deferral balance now, it is my opinion that a fair net present value of the unrealized proceeds of the [redacted] be credited to the customers immediately. In other words, the proceeds or benefits should be netted against the cost to minimize the economic impact on OPC customers of this buyout.

Q14. ***SHOULD THE CURRENT STATUS OF THE [redacted] BE CONTINUED INDEFINITELY?***

A14. No. It is not in the best interest of the customers of Ohio Power to continue the status [redacted] At the same time, the large fuel cost deferral balance caused by the higher coal prices continues to grow. According to the Management and Financial Audits Report, [redacted][26] At the present time, CSP, OPC and their affiliates do not own or control any coal mines or entities from which coal is a source for use at the Companies' units[redacted]

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[26] See Management and Financial Audits Report at 2-21 to 2-22.

[27] See Management and Financial Audits Report at 7-61.

[redacted].[28] I am not proposing any specific option. This decision is best left for AEP to make. I am advising, that whatever decision AEP makes, it should be the least-cost most prudent option after evaluation and that it be subject to review in the next FAC audit.

Given Ohio Power's large fuel cost deferral balance already in place and the high carrying charge associated with the deferral, there are significant benefits to the customers of Ohio Power [redacted] as early as possible and use the proceeds to reduce the fuel cost deferral balance. I do not believe that it is beneficial to Ohio Power's customers for OPC to keep the current status of the [redacted] for an extended period of time.

Q15. PLEASE IDENTIFY ANY DISINCENTIVE FOR OHIO POWER [redacted] IN A TIMELY MANNER UNDER THE EXISTING REGULATORY TREATMENT OF THE [redacted]

A15. Under current regulatory treatment afforded the [redacted], there is no incentive for Ohio Power [redacted] in a timely manner. Ohio Power can simply continue to keep the [redacted] on its books as a [redacted].

[28] Id. at 2-22.

However, there is a disincentive for Ohio Power [redacted] in a timely manner due to the existence of a Fuel Adjustment Clause (FAC) approved for Ohio Power in the ESP case. By [redacted], Ohio Power can avoid the crediting of any potential proceeds against fuel costs for the customers of Ohio Power. In doing so, Ohio Power is essentially earning a return that is equivalent to the difference between the approved carrying charge rate and the actual cost of financing fuel cost deferral on the potential proceeds of the [redacted]. It is my opinion that there is a significant difference between the very high PUCO-approved carrying charge rate and Ohio Power's actual cost of financing fuel cost deferral.

Q16. WHAT IS THE FAIR NET PRESENT VALUE OF THE [redacted]?

A16. Based on my review of the Management and Financial Audits Report, I conclude that $[redacted] million is a fair and reasonable estimate of the net present value of the [redacted].

Q17. WHEN SHOULD THIS $[redacted] MILLION BE CREDITED TO THE CUSTOMERS OF OHIO POWER AND WHY?

A17. Immediately. As noted above, the customers of Ohio Power have been asked to pay the added costs associated with the Settlement Agreement, therefore it is only fair that the customers receive all the proceeds from the Settlement Agreement. This estimated net present value of $[redacted] million for the [redacted] should be credited immediately to the customers of Ohio Power. This credit will significantly reduce the large fuel cost deferral balance of Ohio Power and accumulation of the carrying charges.

This extremely large amount of fuel cost deferral balance is an issue the Commission should address as soon as possible. According to the most recent FAC quarterly filing made by OPC, the fuel cost deferral balance at the end of March 2010 was $358 million.[29] The carrying charges associated with this amount of fuel cost deferral balance can exceed $10 million every three months. This situation cannot continue indefinitely. Unfortunately, there is no end in sight for the continuing increase of the fuel cost deferral balance. In its more recent quarterly FAC filing, Ohio Power indicated that it is probable that OPC will continue to have a long-term deferral to be recovered subsequent to the ESP.[30] Assuming the fuel cost being currently deferred each quarter is representative of deferrals expected over the remainder of the ESP term (i.e. an increase of $48 million for OP), Ohio Power will likely have a deferred balance of $694 million at the end of 2011. The $694 million is calculated using the current balance of $358 million and adding $336 million to the deferrals over the next seven quarters from the first quarter of 2010.

[29] See *In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company,* Case Nos. 10-870-EL-FAC and 10-871-EL-FAC, Quarterly Filing (June 22, 2010), Schedule 3.

[30] Id. at 2.

Q18. WILL THIS IMMEDIATE CREDIT OF $[redacted] MILLION TO THE CUSTOMERS CREATE ANY CASH FLOW OR FUNDING PROBLEMS FOR OHIO POWER AT THE PRESENT TIME OR IN THE NEXT FEW YEARS?

A18. No. The $[redacted] million credit is a one-time event. The $[redacted] million credit does not reduce the total electricity rate (which includes fuel cost, distribution costs and other riders) paid by the customers to Ohio Power. The one-time credit will only reduce the balance of fuel cost deferral. With the substantial amount of fuel cost deferral balance currently in place, any credit less than the balance of fuel cost deferral will not affect the total electricity rate at the present time or in the next few years. As the electricity rate is unchanged as a result of the credit, the cash flow of Ohio Power would not be adversely affected. Similarly, this immediate flow-through of the $[redacted] million to the customers of Ohio Power does not create any new funding needs for Ohio Power at the present time or in the next few years. Ohio Power has already borrowed or internally funded all the money it needed to finance the existing fuel cost deferral balance. The existing fuel cost deferral balance has already reflected the absence of any proceeds from the possible [redacted].

Q19. CAN OHIO POWER BE PROTECTED IN THE EVENT THE [redacted] TURNS OUT TO BE LESS THAN THE SUM OF $[redacted] MILLION PLUS ANY ACCURED CARRYING COSTS?

A19. Yes. Ohio Power is protected in this circumstance. As indicated above, the timing and options regarding the [redacted] is the responsibility of Ohio Power. The protection of Ohio Power from the possible difference between the [redacted] and the $[redacted] million credit can be achieved in the following way. Once the customers receive the $[redacted] million credit for the fair net present value of the [redacted], a regulatory asset of the same amount can be created and recorded in Ohio Power's books. By doing so, Ohio Power is assured of recovering the initial costs of the credit, $[redacted] million, when the [redacted] As a further protection, Ohio Power will be allowed to have a carrying charge on this regulatory asset. The carrying charge should be compounded annually and is based on the current cost of long-term debt of Ohio Power. The use of the cost of long-term debt, rather than the weighted cost of capital, is more appropriate under this circumstance for various reasons. First, there is a definite limit on the time of financing this regulatory asset. Second, the [redacted] has been fully "paid" and should be free from liens or other financial constraints and can be used as collateral for obtaining financing under more favorable terms. Third, a lower (but still market-based) carrying charge can provide an added incentive for Ohio Power [redacted] in a timely fashion.

Q20. SHOULD THERE BE A LIMIT ON THE LENGTH OF TIME REGARDING THE ACCRUAL OF CARRYING COSTS ASSOCIATED WITH THE [redacted] REGULATORY ASSET?

A20. Yes. As indicated above, there is a disincentive for Ohio Power [redacted] in a timely manner under the regulatory treatment of the existing fuel adjustment clauses. In order to remove this disincentive, a two-year limit for the accrual of carrying charges should be imposed. More specifically, the time limit for the accrual of carrying charge of the regulatory asset is decided by the earliest of the following three dates:

(1) [redacted];

(2) two years from the date of the issuance of the Finding and Order in this proceeding; or

(3) January 1, 2013.

Under this time limitation, Ohio Power will not be forced [redacted] within a very short period of time. The bargaining position of Ohio Power in [redacted] is preserved. There is no need for Ohio Power [redacted]. On the other hand, this time limit will reduce Ohio Power's inclination, if any, to keep the status quo of the [redacted] indefinitely. It is to Ohio Power's advantage [redacted] within a reasonable period of time and thus receive payment for the regulatory asset associated with this [redacted].

Q21. PLEASE PROVIDE SOME ADDITIONAL GUIDELINES REGARDING THE COMMISSION'S REVIEW OF THE [redacted]

A21. First, there is definitely a need for a prudence review of the [redacted] This property was already paid for by OPC's customers and is quite valuable with an estimated reserve of [redacted] million tons of coal. Second, the prudence review of [redacted] can be conducted as part of the second or third FAC Management/Performance and Financial Audits that were already established by the Commission. If the [redacted] is not completed within these audit periods, the Commission can order a separate proceeding to review the prudence of AEP's decision. Third, there should be a minimum value placed on [redacted] The $[redacted] million recorded in Ohio Power's books for the [redacted] is a reasonable starting point. Fourth, AEP's own mining of the [redacted] should be considered as a last option given [redacted]. In demonstrating the prudence of this particular option, AEP needs to show that it [redacted] in a cost effective manner and that other [redacted] are not readily available or economically-justified.

Q22. SHOULD THERE BE A TRUE-UP PROCEEDING WHEN THE [redacted]?

A22. Yes. As the markets for coal and other energy sources can change drastically within a short period of time, the value of the [redacted] can vary over time. It is possible that the proceeds from the [redacted] will be different from the fair net present value, $[redacted] million, ascertained at the present time. A true-up proceeding is necessary for the protection of Ohio Power and its customers.

Q23. PLEASE OUTLINE THE TRUE-UP PROCESS FOR THE [redacted] REGULATORY ASSET.

A23. Under the proposed true-up proceeding, the difference, either positive or negative, between [redacted] and the balance of the regulatory asset that was established through the credit toward OP's fuel deferral balance will flow through to the customers of Ohio Power. If there is a surplus, it can flow to the customers through the FAC, or other usage-based riders. If there is a shortfall, depending on the amount of the shortfall and the timing of [redacted] the shortfall may also be flow through the FAC or other usage-based riders. The amount of potential shortfall is limited to no more than the difference between the future realized value of the [redacted] and [redacted] million. If the amount of shortfall is quite large, the Commission may consider instituting a deferral mechanism for recovering this shortfall over an extended period of time. If this is the case, the Commission may consider a deferral of the shortfall without carrying charge or choose a carrying charge rate that is no higher than Ohio Power's actual cost of long-term debt.

Q24. DO YOU HAVE ANY OTHER COMMENTS REGARDING THE FINDINGS AND RECOMMENDATIONS OF THE MANAGEMENT AND FINANCIAL AUDITS REPORT?

Q24. Yes. I have two additional comments.

Q25. PLEASE EXPLAIN YOUR ADDITIONAL COMMENTS.

A25. First, I am concerned about the lack of adequate audit trail for the costs of purchased power by Ohio Power and Columbus Southern Power in 2009. In selecting April 2009 as the test month, the Auditor concludes that "Larkin was unable to trace most of the information provided to the FAC workbooks (provided in LA-1-47) for the test month. The Companies should provide a better audit trail for tracing such costs in the next audit period.[31] This is not sufficient. I recommend that the Commission direct the Auditor to further investigate this issue and consider disallowing part of 2009 purchased power cost in light of the absence of a proper audit trail.

[31] See Management and Financial Audits Report at 1-7.

Second, I am concerned about whether the added costs of coal contract restructuring were fully allocated to Off-System Sales in 2009 and 2010. In the audit, the Auditor asked for, but did not receive, the hourly or 24-hour dispatch cost information and the detailed off-system sales cost information related to forced outages.[32] I fully support the Auditor's recommendation that "AEP Ohio should update and/or modify its systems in order to better track the AEP East Fleet System stack information." This information is essential to ensure the customers of Ohio Power and Columbus Southern Power are treated fairly in relation to AEP's off-system sales customers.

Q26. DOES THIS CONCLUDE YOUR TESTIMONY?

A26. Yes. However, I reserve the right to supplement my testimony in the event that AEP or the PUCO Staff submits additional testimonies or comments, or if new information or data in connection with this proceeding becomes available.

[32] Id. at 1-8.

<u>**CERTIFICATE OF SERVICE**</u>

I hereby certify that a true copy of the redacted, Public Version of the *Testimony of Daniel J. Duann, Ph.D., on Behalf of the Office of the Ohio Consumers' Counsel* was served by electronic and regular U.S. Mail, postage prepaid, to all parties, this 16th day of August 2010.

Michael E. Idzkowski
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<u>**SERVICE**</u>

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Selected Publications of Daniel J. Duann, Ph.D.

Journal Articles

Regulation, The Cato Review of Business & Government," Turning up the Heat in the Natural Gas Industry," Vol. 19, 1996, (with Kenneth W. Costello).

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