FII FILE

EXHIBIT NO._________

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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

DIRECT TESTIMONY OF
PEGGY I. SIMMONS
ON BEHALF OF
COLUMBUS SOUTHERN POWER COMPANY
AND
OHIO POWER COMPANY

Filed: August 16, 2010

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PERSONAL INFORMATION

Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

A. My name is Peggy I. Simmons. I am employed as Manager – Renewable Energy for American Electric Power Service Corporation (AEPSC), a wholly owned subsidiary of American Electric Power, Inc (AEP). AEPSC supplies engineering, financing, accounting and similar planning and advisory services to AEP's eleven electric operating companies, including Columbus Southern Power Company and Ohio Power Company, collectively AEP Ohio ("AEP Ohio or Companies"). My business address is 155 West Nationwide Boulevard, Columbus, Ohio 43215

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I earned a Bachelor's degree in Economics from The Ohio State University and a Master's degree in Science Administration with a concentration in Public Policy from Central Michigan University. I have over ten years of regulatory and commercial experience with AEP. In my regulatory role, I participated in numerous regulatory filings in AEP's eleven state jurisdictions supporting cost recovery related to purchased energy, fuel, off-system sales and RTO market-related charges. My commercial roles involved scheduling physical gas and power, trading real time power, structuring marketing transactions and approximately 4 years of managing and procuring renewable energy contracts.

Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGER – RENEWABLE ENERGY?

A. As Manager – Renewable Energy, I am responsible for structuring and issuing renewable energy Requests for Proposals (RFPs), reviewing and responding to inquiries posed by potential bidders, and evaluating bidders' proposals. I also participate in the negotiation and execution of the Renewable Energy Purchase Agreements (REPAs) with successful bidder(s) in addition to supporting regulatory cost recovery efforts for these REPAs. I participate in the contract management of AEP's portfolio of REPAs, now exceeding 1,300 MW of renewable energy and related long-term structured greenhouse gas / carbon credit offset agreements.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony in this proceeding is to respond to the renewable energy issues and portions of the management audit, provided by Energy Ventures Analysis, Inc. (EVA) and Larkin & Associates PLLC (LA) in their final Report of the Management/Performance and Financial Audits of the FAC of the AEP Ohio operating companies, in Case No. 09-0872-EL-FAC. Specifically, I will address portions of recommendation #6 that asserts: "Prior to entering into long term agreements for renewables with fixed pricing, AEP Ohio should fully evaluate self build and biomass co-firing alternatives and should explore contract options that would provide some protection in the event that the contract pricing for power and/or RECs diverge with market prices for the same."

AEP OHIO RENEWABLE STRATEGIC PLAN

Q. PLEASE BRIEFLY DESCRIBE AEP OHIO'S STRATEGIC PLAN FOR MEETING ITS RENEWABLE ENERGY BENCHMARKS SET FORTH IN S.B. 221.

A. As outlined in the Companies' ESP filing (Case No. 08-917-EL-SSO and 08-917-EL-SSO) and further detailed in the Company's Alternative Energy Compliance filing (Case No. 10-487-EL-ACP and 10-486-EL-ACP), AEP Ohio's renewable energy procurement strategy includes purchasing Renewable Energy Credits/Certificates (RECs) via RFPs and broker market quotes; securing long-term REPAs; developing customer-sited distributed generation and evaluating ownership of certain renewable energy resource generation including biomass co-firing.

Q. WHAT TYPES OF RENEWABLE RESOURCES ARE BEING CONSIDERED BY AEP OHIO?

A. AEP Ohio considers renewable technology options that meet the requirements as set forth in SB 221.

Q. WHAT TYPES OF RENEWABLE RESOURCES ARE CURRENTLY IN THE COMPANIES' PORTFOLIO?

A. AEP Ohio began receiving energy from the 10.08 MW in-state Wyandot Solar long term power purchase agreement in June 2010; the two 50 MW Fowler II long term wind power purchase agreements began delivering energy in November 2009; the two 70 KW solar arrays on the Companies' Athens and Newark customer service centers also started generating in January 2009; RECs were acquired via the broker market that were generated from landfill gas and wind; and the Company has conducted initial biomass co-firing tests at its Picway generation station and continues to examine similar testing at its Muskingum River station and Conesville unit 3, as further described in Companies witness Rusk's testimony.

AEP OHIO RENEWABLE EVALUATION

Q. BRIEFLY DESCRIBE THE EVALUATION PROCESS WHEN CONSIDERING A RENEWABLE TECHNOLOGY OPTION TO SUPPORT AEP OHIO'S RENEWABLE REQUIREMENTS.

A. AEP's New Technology Development group provides information as part of its annual renewable planning process and evaluates a wide range of renewable technologies. Each renewable technology is evaluated on cost, location, feasibility, applicability to AEP's service territory and commercial availability. After this high-level evaluation, an economic screening is applied to each technology to estimate the costs and effectiveness in order to rank each renewable alternative, and allow consideration of the more cost-effective options first, such as wind and biomass co-firing. In addition to analyzing the economics of each renewable alternative, the practicality and feasibility of implementation are considered for any self-build option, which includes but is not limited to, availability of site locations suitable for projects, transmission access, available capital and regulatory cost recovery. These additional factors were taken into consideration resulting in the Companies' strategy to secure initial quantities of renewable energy required by S.B. 221 via long-term power purchase agreements as opposed to owning the assets.

Q. PLEASE DESCRIBE THE PAST AND PRESENT PROCESSES USED BY AEPSC TO SECURE LONG-TERM POWER PURCHASE AGREEMENTS FOR AEP OHIO IN SUPPORT OF THE COMPANIES' RENEWABLE REQUIREMENTS.

A. AEPSC utilizes the competitive bidding process as a means of procuring renewable energy at the most reasonable cost option available at that time for AEP Ohio and its customers. Specific information requested per the RFP and described in more detail below, allows AEPSC to evaluate the viability of the project bids that are received. RFPs are issued by AEPSC, as agent for AEP Ohio and the other three operating companies. The RFPs stipulate that all initial and future outputs of the bidders' facilities, including energy, capacity, and environmental attributes, including RECs, be sold to AEP Ohio or one of its affiliates through a REPA for a term of 20 years. The bidder is required to deliver its electrical output to the transmission system (a substation bus) of an RTO member. The bidder is also responsible for any and all transmission upgrades required to the system to accommodate the facility's electrical output. Bidders are required to offer "all-in" pricing, which includes all fixed and variable costs associated with capital expenditures, operation and maintenance (O&M), and any other costs associated with delivering the full output of the facility to the delivery point. The RFP included a sample power purchase agreement, which defined items such as terms and conditions of service, commercial operation and construction of the facility, delivery and metering, O&M, performance assurance, insurance, permitting and licensing, Supervisory Control and Data Acquisition (SCADA) requirements, billing and settlement terms, and credit and collateral requirements.

Q. DO YOU AGREE WITH EVA'S CONCLUSION (PG 6-7) IN THE AUDIT REPORT WHICH STATES THAT GREATER EMPHASIS SHOULD BE PLACED ON THE SELF-BUILD OPTION FOR RENEWABLES?

A. No. All renewable energy options to meet AEP Ohio's renewable energy benchmarks set forth in S.B. 221 should be evaluated. In addition, I have been advised by legal counsel that section 4928.65, Ohio Revised Code, expressly permits an electric distribution utility to purchase RECs as a means of compliance and that AEP Ohio cannot be required to exercise a self-build option. Furthermore, any self-build option entered into by AEP Ohio would need to include a clear path to cost recovery from the Ohio Public Utilities Commission.

Q. WHAT IS THE TERM OF THE CURRENT LONG TERM POWER PURCHASE AGREEMENTS FOR RENEWABLE ENERGY IN THE RFP?

A. The long term renewable power purchase agreements are for a term of 20 years.

Q. WHAT IS THE ADVANTAGE OF EXECUTING 20-YEAR REPAs?

A. Along with long-term price certainty, the 20-year term of the wind REPA provides other direct benefit to the customers. The 20-year agreement allows renewable energy resource developers to procure long-term financing, thereby amortizing the cost of their projects over a longer period. Such financing has the effect of reducing the financing costs and allows for a more economically viable price over the term of the contract. Additionally, as states throughout the U.S. continue to implement Renewable Portfolio Standards (RPS) and goals, the availability of renewable energy may be constrained in the coming years. This concept is even more pronounced in states such as Ohio, where its RPS contains an in-state requirement. In this case, a longer term REPA provides supply certainty for future years as the Company complies with the escalating requirements contained in S.B. 221.

RENEWABLE ENERGY COSTS AND MARKET PRICE FLUCTUATIONS

Q. IS IT REASONABLE TO EXPECT RENEWABLE ENERGY COSTS TO BE LESS THAN EXISTING FOSSIL GENERATION IN THE MARKET?

A. No. Currently, even one of the least cost renewable technologies, such as wind, is more expensive than existing fossil generation. Specifically in Ohio, wind and solar resources are not as economic when compared to those same resources in western regions of the United States. Thus, the relative costs of these resources are likely to be higher than the costs in western regions. The fact that Ohio renewable generation is expected to cost more than existing fossil generation in the market supports the rationale for renewable standards to include either an incentive for compliance or, in the case of Ohio, a non-recoverable penalty for non-compliance.

Q. WHAT STEPS WERE TAKEN IN AEP OHIO'S EXISTING LONG TERM WIND REPA'S TO BETTER ALIGN THE BUNDLED (ENERGY, CAPACITY, RECs) COST OF THE REPA WITH THE MARKET PRICE?

A. It is not commercially feasible to negotiate an agreement that allows the contract price to adjust with market price fluctuations, without expecting to pay a significant premium for such an option. However, since wind generation is greater during off-peak hours (less energy demand) versus peak hours (higher energy demand), AEPSC has negotiated specific terms and conditions that better align the cost of the bundled product in the REPA with the market value of the energy at the time of generation. For example, the Company's Fowler II agreements contain time of day pricing provisions for the entire term of the agreement, not just the first three years as stated in EVA's audit report. Time of day pricing establishes a lower contract rate during off peak hours when energy demand may be lower and market prices are depressed and a higher contract rate during peak hours when market prices may be elevated due to increased demand.

Q. IS THE RECOMMENDATION ON PAGE 1-7 OF EVA'S AUDIT REPORT REGARDING RENEWABLE CONTRACT PRICES/ RECs A COMMERCIALLY REASONABLE TERM TO INCLUDE IN A REPA?

A. No. As stated above, this type of contract option simply does not exist with regard to commercial REPAs. Even if it did, the option would carry a significant price premium in order to compensate the developer/seller to assume the risk and volatility of such an obligation. Ultimately, this price premium would result in a higher REPA contract price paid by the company and higher electric rates paid by the retail customer. Such an option would be analogous to the sale of a house where the seller is asked to buy the home back from the buyer in the event the house's market price declines. Under this scenario, the buyer would retain the entire upside potential while shifting all of the down side risk to the seller. This type of contract option is not realistic and does not exist in the energy market.

Q. DO YOU AGREE WITH EVA'S RECOMMENDATION THAT IF RECs ARE UNAVAILABLE, AEP OHIO SHOULD CONSIDER ALTERNATIVE COMPLIANCE PENALTIES (ACPs) FOR THE NON-SOLAR RENEWABLE BENCHMARK IF ADDITIONAL TIME IS NEEDED TO PURSUE THE SELF-BUILD OPTION?

A. Absolutely not. AEP Ohio strongly objects to this recommendation. S.B. 221 does not limit an electric distribution utility to self build as the only means of compliance for the non-solar benchmark. As stated earlier in my testimony, AEP Ohio evaluates all procurement options as a means of compliance with the renewable energy benchmarks set forth in S.B. 221. I have been advised by legal counsel that ACPs are not recoverable from ratepayers. It is not reasonable to expect AEP shareholders to pay ACPs in lieu of compliance if the self-build option is not being undertaken and other prudent means of compliance exist.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Public Version of the Direct Testimony of Peggy I. Simmons on behalf of Columbus Southern Power Company and Ohio Power Company was served by U.S. Mail upon the individuals listed below this 16th day of August, 2010.

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