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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

REBUTTAL TESTIMONY OF
JASON T. RUSK
ON BEHALF OF
COLUMBUS SOUTHERN POWER COMPANY
AND
OHIO POWER COMPANY

PUBLIC VERSION

Filed: August 23, 2010

REBUTTAL TESTIMONY OF
JASON T. RUSK
ON BEHALF OF COLUMBUS SOUTHERN POWER
COMPANY AND OHIO POWER COMPANY
BEFORE THE PUBLIC UTILITY COMMISSION OF OHIO
IN CASE NOS. 09-0872-EL-FAC AND 09-873-EL-FAC

INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Jason T. Rusk. I am employed by the American Electric Power Service Corporation ("AEPSC"), a subsidiary of American Electric Power Company, Inc. ("AEP"), in the Fuel, Emissions & Logistics Group ("FEL") as Director, Eastern Fuel Procurement. My business address is 155 West Nationwide Boulevard, Suite 500, Columbus, Ohio 43215.

Q. ARE YOU THE SAME JASON RUSK WHO PROVIDED DIRECT TESTIMONY IN THIS CASE?

A. Yes.

PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I am responding to certain recommendations of Mr. Hess of Industrial Energy Users (IEU) has provided in his direct testimony regarding the treatment of value received and expenses incurred under the [redacted] Tonnage Shortfall Settlement and for the [redacted] Agreement, and providing an explanation of the [redacted] Reserve valuation as a result of the recommended valuation by Dr. Duann of the Ohio Consumers' Counsel (OCC) in his direct testimony.

[redacted] TONNAGE SHORTFALL SETTLEMENT

Q. ON PAGE 3, LINES 3-8, IEU WITNESS HESS RECOMMENDS THAT THE COMMISSION CREDIT THE VALUE OF A NOTE RECEIVABLE RECEIVED BY AEPSC IN DECEMBER 2008 AGAINST OHIO POWER COMPANY'S (OPCO'S) UNDER-RECOVERY BALANCE. DO YOU AGREE WITH THIS RECOMMENDATION?

A. No, this position is based on a misapprehension of the Settlement Agreement in late 2008.

Q. WHY DID [redacted] PROVIDE THE NOTE RECEIVABLE TO AEPSC IN LATE 2008?

A. While the 2008 Settlement Agreement terminating contract [redacted] was executed on January 1, 2008, [redacted] had a continuing obligation to supply [redacted] million tons of coal through December 31, 2008. However, of the [redacted] million tons [redacted] was required to deliver in 2008, it failed to deliver [redacted] tons. As compensation for the 2008 delivery shortfall, a settlement was negotiated under which [redacted] provided OPCo with a note receivable in the amount of $[redacted] in December 2008. Hence, this payment related to the coal cost for 2008, prior to the audit period.

Q. ON PAGE 4, LINES 9-12, MR. HESS INDICATES THAT THE $[redacted] VALUE RECEIVED FROM [redacted] WAS RELATED TO THE SETTLEMENT AGREEMENT THAT RESULTED IN THE TERMINATION OF CONTRACT [redacted]. IS THIS ACCURATE?

A. No. The 2008 delivery shortfall negotiation, which occurred late in 2008, did not arise until well after the January 1, 2008 Settlement Agreement was consummated and it addressed a completely different issue unrelated to the contract termination. The $[redacted] million payment received from [redacted] related to a separate issue addressing compensation for [redacted] failure to meet their coal delivery obligation within the calendar year 2008 under contract [redacted] This issue was not anticipated, nor contained, in the Settlement Agreement that terminated this contract.

Q. HOW WAS THE SETTLEMENT FOR THE SHORTFALL TONS DETERMINED?

A. The settlement amount was calculated by subtracting the 2008 [redacted] contract price, per ton, from the then-current market price per ton. The difference was then multiplied by the negotiated delivery shortfall tonnage amount of [redacted] to arrive at the $[redacted] million. This calculation methodology reflects the incremental cost to replace the delivery shortfall quantity, which was needed, from the market.

Q. DID OPCO PURCHASE COMPARABLE SPOT COAL IN 2008?

A. Yes. OPCo's incremental spending above the terminated contract cost for comparable spot coal purchases in 2008 were approximately the same as the negotiated payment.

Q. ON PAGE 9, LINES 3-6, MR. HESS AGAIN APPARENTLY LINKS THE $[redacted] MILLION PAYMENT TO THE [redacted] SETTLEMENT AGREEMENT AND RECOMMENDS THAT THIS AMOUNT BE

INCLUDED AS PART OF A REDUCTION TO OPCO'S DEFERRED FUEL BALANCE. IS THIS SUGGESTION APPROPRIATE?

A. No. As previously stated, the 2008 shortfall negotiation did not arise until well after the January 1, 2008 Settlement Agreement was consummated and it addressed a completely different issue. The $[redacted] million payment received from [redacted] related to a separate issue addressing compensation for [redacted] failure to meet their coal delivery obligation in 2008 under contract [redacted]. This issue was not anticipated, nor contained, in the Settlement Agreement that terminated this contract on December 31, 2008.

Q. **IS THERE ANY BASIS FOR APPLYING THIS AMOUNT AGAINST OPCO'S FUEL UNDER-RECOVERY BALANCE?**

A. No. The shortfall in coal deliveries occurred in 2008 as did the receipt of the note receivable under which OPCo was paid for the shortfall. Contract [redacted] was terminated effective December 31, 2008 and there is no basis to apply any portion of this payment to fuel costs incurred in 2009 or beyond. Please see the Rebuttal Testimony of Companies witness Mr. Dooley for an explanation of the accounting for this payment.

VALUATION OF THE [redacted] RESERVE

Q. **ON PAGE 15 OF HIS DIRECT TESTIMONY, DR. DUANN HAS DETERMINED THE PRESENT VALUE OF THE [redacted] RESERVE TO BE $[redacted] MILLION DOLLARS. HOW DID AEPSC DETERMINE THE VALUATION OF THE RESERVE?**

A. AEPSC contracted with the [redacted] to perform a valuation study that resulted in a final report being produced in October of 2007. The valuation, based on an annual discount rate of [redacted]% and with the initial year of coal production being [redacted], was $[redacted] million. A range of other values were presented based on changes to any of these parameters. This was the only independent valuation available at the time of the January 1, 2008 Settlement Agreement. The valuation from the October 2007 [redacted] was used as a basis in accounting, as discussed by witness Dooley in his rebuttal testimony.

Q. WERE ANY FOLLOW-UP VALUATION STUDIES PERFORMED?

A. No. However, AEP did contract with this same consultant to perform a different study, a feasibility study for the development of an underground mine, which resulted in a final report in April of 2009. This analysis considered the necessary large capital investments and operating and maintenance expenses projected against a future coal market forecast for Central Appalachian coals. This second study is not a repeat of the previous reserve valuation. As the property remains in its current state, it would be inappropriate to use the feasibility study as a basis to support an increase in value beyond the 2007 valuation of $[redacted] million.

[redacted] CONTRACT SUPPORT

Q. ON PAGE 11, LINES 10 - 13, MR. HESS DELINEATES THAT THE CONTRACT SUPPORT PROVIDED TO [redacted] RESULTS IN A HIGHER PRICE OF $[redacted]/TON FOR [redacted] MILLION TONS WITHIN THE FAC PERIOD AND A $[redacted]/TON DISCOUNT TO MARKET OUTSIDE

THE BOUNDARIES OF THE FAC. WAS THE EXISTENCE OF THE FAC OR THE POTENTIAL FOR THE FAC TO BE DISCONTINUED CONSIDERED AS THE CONTRACT SUPPORT TERMS WERE DEVELOPED?

A. No, AEPSC did not consider the existence of an FAC or the possibility of not having an FAC beyond the ESP in the development of its contract support. As mentioned by the Auditor, AEPSC confirmed [redacted] financial difficulties through a review of its financial records and that the cost to replace the [redacted] coal would be significant (Audit Report on page 2-24). AEPSC provided this contract support to maintain [redacted] as a viable on-going coal supplier with no consideration of when an FAC would apply.

Q. IS AEPSC OBLIGATED TO PURCHASE COAL FROM [redacted] BEGINNING IN 2013 AT THE DISCOUNTED PRICE REFERENCED BY MR. HESS?

A. No. The discount price referenced by Mr. Hess is an option, not an obligation, for AEPSC. Whether AEPSC will exercise this option on behalf of OPCo beginning in 2013 and whether OPCo has a FAC in place at that time are both matters that are not presently known.

Q. DID THE AUDIT REPORT RAISE ANY PRUDENCE ISSUES CONCERNING THE CONTRACT SUPPORT PROVIDED TO [redacted]?

A. No. In fact the Audit Report, on page 2-24, was complementary noting that "As with [redacted], AEPSC's actions were carefully considered and economically evaluated. AEPSC recognized both the history of the long and successful relationship with [redacted] and the importance of retaining [redacted] as a supplier at [redacted]."

Q. DID THE AUDIT REPORT RAISE ANY ISSUES CONCERNING THE CONTRACT SUPPORT WITH REGARD TO TIMING OF THE EXISTENCE OR POTENTIAL DISCONTINUATION OF THE FAC?

A. No. In fact, on page 2-24, the Audit Report states that "EVA commends AEPSC for its actions regarding [redacted]."

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Public Version of the Rebuttal Testimony of Jason T. Rusk on behalf of Columbus Southern Power Company and Ohio Power Company was served by U.S. Mail upon the individuals listed below this 23rd day of August, 2010.

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