

FILE

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)	
Columbus Southern Power Company and)	
Ohio Power Company for Authority to)	Case No. 11-346-EL-SSO
Establish a Standard Service Offer)	Case No. 11-348-EL-SSO
Pursuant to § 4928.143, Ohio Rev. Code,)	
in the Form of an Electric Security Plan.)	

In the Matter of the Application of)	
Columbus Southern Power Company and)	Case No. 11-349-EL-AAM
Ohio Power Company for Approval of)	Case No. 11-350-EL-AAM
Certain Accounting Authority.)	

DIRECT TESTIMONY OF

TONY C. BANKS

ON BEHALF OF

FIRSTENERGY SOLUTIONS CORP.

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

2 A. My name is Tony C. Banks. My business address is 341 White Pond Drive, Akron,
3 Ohio 44320. I am employed by FirstEnergy Solutions Corp. ("FES") as the Vice
4 President of Competitive Market Policies.

5 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
6 **PROFESSIONAL QUALIFICATIONS.**

7 A. I have a degree in accounting, followed by over 35 years of energy industry
8 experience in both natural gas and electricity, and in both regulated and competitive
9 markets. I first joined FES in 2004, as the Director of Marketing and then as a Vice
10 President for unregulated sales of electricity and energy-related products and services.
11 I then spent four years as the Vice President, Business Development, Performance &
12 Management, for FirstEnergy Corp. In 2009, I rejoined FES as Vice President of
13 Product & Market Development, and transitioned in 2011 into my current role as
14 Vice President of Competitive Market Policies.

15 **Q. WHAT ARE YOUR RESPONSIBILITIES AS THE VICE PRESIDENT OF**
16 **COMPETITIVE MARKET POLICIES?**

17 A. As the Vice President of Competitive Market Policies, I am responsible for assisting
18 FES in overseeing and coordinating initiatives involving state public utilities
19 commissions, including the Public Utilities Commission of Ohio (the "Commission"),
20 the Federal Energy Regulatory Commission ("FERC"), regional transmission
21 organizations ("RTO"), and other policy developments that impact competitive
22 electric energy markets.

1 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

2 A. I am testifying on behalf of FES. FES is a licensed competitive retail electric
3 service (“CRES”) provider in Ohio and a leading competitive energy supplier
4 serving residential, commercial and industrial customers in the Midwest and Mid-
5 Atlantic regions, including the territories of Columbus Southern Power Company
6 and Ohio Power Company (collectively, “AEP Ohio”). FES supplies electricity to
7 customers in Illinois, Maryland, Michigan, New Jersey, Ohio and Pennsylvania.
8 FES also manages the energy procurement needs of more than 120,000 businesses.
9 FES is a significant corporate resident and supporter of Ohio. FES is proudly
10 headquartered in Akron, Ohio, where it has been for nearly 15 years. Over that
11 time, FES has grown and now, with its diverse subsidiary generating facilities,
12 employs more than 6,000 people in all different roles. FES also contributes tens of
13 millions of dollars annually to Ohio and local governments in property and other
14 taxes, and supports numerous charitable organizations in the area.

15 **Q. CAN YOU DESCRIBE FURTHER FES’S EXPERIENCE IN THE**
16 **COMPETITIVE ELECTRIC MARKETS IN OHIO?**

17 A. Yes. FES owns and operates approximately 21,000 MW of competitive generation in
18 Ohio and elsewhere. FES offers a wide range of energy and energy-related products
19 and services to wholesale and retail customers across Ohio, including the generation
20 and sale of electricity, as well as energy planning, procurement and other services.
21 Indeed, FES serves and provides savings to customers of all classes. It also serves
22 customers in all of the Ohio electric distribution utilities’ (“EDUs”) service territories.
23 As the leading CRES provider in Ohio, FES provides competitive retail electric

1 service to over one million customers across the state. FES also has significant
2 experience as a supplier at the wholesale level, including competitive bid
3 procurements in Ohio and other states.

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

5 A. I am providing FES's overall response to AEP Ohio's proposed ESP: the proposed
6 ESP should be denied, and AEP Ohio should incorporate a competitive bid process
7 and other modifications to ensure that its customers receive the benefits of a
8 competitive market for electric service.

9 My testimony also will specifically address the numerous features of AEP Ohio's
10 proposed ESP that will harm customers and the development of wholesale and retail
11 markets in the AEP Ohio footprint, including numerous provisions that are anti-
12 competitive, that will have the effect of preventing suppliers from serving customers,
13 and that will, thereby, prevent customers from realizing savings. I will discuss why
14 AEP Ohio's standard service offer ("SSO") should incorporate wholesale and retail
15 competition – not only because it is required by state policy, but because competition
16 provides numerous and significant benefits to customers. According to the PUCO, as
17 of March 2011, over 1.6 million Ohio customers are shopping for retail electric
18 service, but less than 0.5% of those customers are located in AEP Ohio's service
19 territory.¹ AEP Ohio's customers deserve to further realize the benefits and savings
20 that result from competition and that are enjoyed by other EDUs' customers.

¹ See PUCO, Division of Market Monitoring & Assessment, "Summary of Switch Rates from EDUs to CRES Providers in Terms of Customers For the Month Ending March 31, 2011."

1 **I. THE PROPOSED ESP SHOULD BE DENIED OR, AT THE VERY LEAST,**
2 **SIGNIFICANTLY MODIFIED**
3

4 **Q. PLEASE SUMMARIZE FES'S OVERALL POSITION REGARDING AEP**
5 **OHIO'S PROPOSED ESP.**

6 A. The Commission should deny AEP Ohio's ESP proposal for several reasons:

- 7 • The proposed ESP is not more favorable in the aggregate as compared to the
8 expected results of a market-rate offer ("MRO").
9

10 In support of its proposed ESP, AEP Ohio points to its conclusion that the
11 proposed ESP establishes prices for customers that are more favorable than the
12 expected prices resulting under of an MRO. However, as explained by FES witness
13 Michael Schnitzer, AEP Ohio's price comparison should be disregarded because it
14 contains flawed and unsupported data and assumptions that distort the impact of its
15 proposed ESP and the expected results of an MRO.

16 AEP Ohio has done nothing more to support that the proposed ESP is more
17 favorable in the aggregate than the expected results of an MRO other than its flawed
18 price comparison. Mr. Hamrock makes reference to alleged benefits provided by the
19 Turning Point solar project (the costs of which AEP Ohio seeks to recover from all of
20 its customers), the Partnership with Ohio Fund (which would provide funds for low
21 income customers, but only if AEP Ohio is approaching significantly excessive
22 earnings), and vague economic development efforts.² However, to the extent these
23 components of the proposed ESP actually provide any benefits, they could not come
24 close to making up for the nearly \$1 billion price differential imposed by the

² Direct Testimony of Joseph Hamrock on Behalf of Columbus Southern Power Company and Ohio Power Company ("Hamrock Testimony"), pp. 26-27.

1 proposed ESP. Indeed, the testimony of the FES witnesses establishes that the
2 proposed ESP will impose additional risks, discriminatory prices, misplaced
3 incentives for uneconomic investments, and numerous barriers to competition – all of
4 which will harm AEP Ohio’s customers and Ohio’s economy, and all of which further
5 confirm that the proposed ESP is not more favorable in the aggregate than the
6 expected results of an MRO.

- 7 • AEP Ohio has failed to carry its burden to support the proposed ESP.

8 As noted above, AEP Ohio has not done enough to support its aggregate
9 comparison of the proposed ESP to an MRO and, where components of the
10 comparison are identified, the support is grossly inadequate. AEP Ohio has provided
11 little or no record evidence to support the most significant provisions of the proposed
12 ESP. Among other things, it has failed to estimate the costs imposed on customers by
13 several significant riders, the impact of which must be considered by the
14 Commission. AEP Ohio’s proposed capacity price is another illustration of these
15 inadequacies in that it lacks evidentiary support, is unrelated to the capacity charges
16 actually imposed through the PJM Interconnection (“PJM”) capacity market, and is
17 approximately nine times higher than the amount that PJM charges. In fact, when the
18 more appropriate market-based price for capacity is substituted in AEP Ohio’s
19 calculation of the price of its proposed ESP, the price of the proposed ESP
20 immediately becomes less favorable than the expected results of an MRO based on
21 just this one change.

- The proposed ESP violates numerous state policies.

The proposed ESP does not ensure effective competition in the provision of retail electric service in AEP Ohio's service territory. State policy recognizes that competition promotes lower prices, incentivizes generating and operating efficiencies, and shifts risks away from customers. Contrary to this and other policies, AEP Ohio's ESP would effectively preclude competition through, among other things, numerous nonbypassable generation-related riders and an unsupported and unnecessary Provider of Last Resort ("POLR") Charge Rider – which improperly guarantee AEP Ohio's ability to recover generation-related costs from all of its distribution customers and artificially lower the price-to-compare. These provisions, and other burdens and barriers on shopping imposed by AEP Ohio, harm retail choice in its service territory and appear to be designed to foreclose customers in its service territory from taking advantage of the savings that can be achieved from a competitive market.

- The proposed ESP includes improper and anti-competitive nonbypassable cost recovery.

AEP Ohio has included numerous nonbypassable generation-related riders in the proposed ESP, none of which may properly be recovered in an ESP and all of which will destroy the competitive market for generation service in its service territory. For example, the Environmental Incremental Carrying Cost Recovery Rider, the Facility Cost Closure Recovery Rider, the Carbon Capture and Sequestration Recovery Rider, the Generation NERC Compliance Cost Recovery Rider, and the Generation Resource Rider seek to recover generation-related costs on a nonbypassable basis. But, there is no basis for any of these riders to be nonbypassable. For example, these

riders do not satisfy the preconditions of either R.C. § 4928.143(B)(2)(b) or (c). Most significantly, contrary to AEP Ohio's request and Mr. Hamrock's plaintive letter attached to the Application, there is no "need" for additional generation in Ohio and certainly no need to burden customers with uneconomic generation investments through guaranteed cost recovery. Instead, these nonbypassable riders will only benefit AEP Ohio and its shareholders by allowing AEP Ohio to artificially lower its generation price-to-compare, spread its generation costs to shopping customers, and promote its own jobs at the expense of all other Ohio businesses, jobs and customers in its service territory.

- The proposed ESP confirms that the time has come for AEP Ohio to separate its competitive and non-competitive services.

AEP Ohio indicates in its proposed ESP that it will continue to operate via only "functional separation" of its competitive and non-competitive electric services.³ There is no justification for AEP Ohio to continue without legal separation, and such separation is necessary in order to ensure that state policy is being fulfilled and that AEP Ohio is precluded from shifting its generation costs to shopping customers, artificially reducing the price-to-compare, and effectively closing the door to competition.

FES's position is supported by Ohio law, as well as the testimony of the FES witnesses, which describe in further detail these and other issues associated with AEP Ohio's proposed ESP.

³ See Columbus Southern Power Company's and Ohio Power Company's Application, Case No. 11-346-EL-SSO and 11-348-EL-SSO, filed Jan. 27, 2011 ("Application") at p. 6.

1 **Q. IF THE COMMISSION DOES NOT DENY THE PROPOSED ESP, DOES FES**
2 **HAVE ANY RECOMMENDATIONS?**

3 A. Yes. If the Commission does not deny the proposed ESP as a whole, it should at a
4 minimum approve the ESP only with the following significant modifications that, in
5 combination with each other, help bring the ESP in line with state law and policy.

- 6 • All generation-related riders must be bypassable.
- 7 • The ESP should incorporate a competitive bid process (“CBP”) for SSO
8 service because a CBP supports the public policy of Ohio by promoting stable
9 and reasonably priced retail electric service for customers. A full-
10 requirements product CBP shifts the burden of POLR and other risks off of
11 customers and on to suppliers without the need for nonbypassable charges,
12 and provides a level playing field for suppliers such that customers can
13 receive the full benefits of competition.
- 14 • The ESP should incorporate PJM Reliability Pricing Model (“RPM”), market-
15 based pricing for capacity provided for shopping customers, as has been
16 ordered by FERC and the Commission. To the extent the Commission allows
17 AEP Ohio to change to cost-based capacity prices to CRES providers (which
18 FES submits is not appropriate), that change can only be made beginning in
19 the 2015/2016 planning year. The time for suppliers to elect self-supply for
20 capacity (instead of having AEP Ohio provide the capacity) for the years
21 2012-2014 has already passed, and CRES providers and their customers
22 would otherwise be locked into capacity charges that, during the term of the
23 ESP, would be *nine times* higher than market prices. In addition, if cost-based

1 capacity prices are used beginning in 2015/2016, AEP Ohio's proposed cost-
2 based price is excessive and must be modified to include only qualified and
3 supported costs and to adjust for all applicable offsets, such as revenues from
4 off-system sales.

- 5 • The Commission should remove other barriers to competition implemented by
6 AEP Ohio, which include: switching rules that require various minimum
7 stays, a 90-day notice provision, and a \$10 switching fee; separate rate books
8 for shopping and non-shopping customers; and the failure to offer rate-ready
9 consolidated billing. The removal of these barriers also would bring AEP
10 Ohio closer in line with other Ohio utilities' practices.
- 11 • AEP Ohio should be required to effect true corporate separation of its
12 regulated and unregulated electric services.

13 **Q. WHO ARE FES'S OTHER WITNESSES?**

14 A. FES has three witnesses in addition to me. FES witness Michael Schnitzer will
15 demonstrate that: AEP Ohio's comparison of its ESP price to the expected results of
16 an MRO is materially flawed and that when AEP Ohio's self-serving errors are
17 corrected, the ESP is not more favorable because it is more costly and more risky for
18 customers; the proposed ESP will have a negative impact on competitive wholesale
19 and retail markets by, among other things, allowing AEP Ohio to subsidize its
20 generation costs from all distribution customers; and an alternative approach for
21 competitive solicitations of SSO supply would better serve AEP Ohio's customers.

22 FES witness Roy Shanker will describe why AEP Ohio's proposed ESP must be
23 compared to an MRO that incorporates RPM prices – market-based prices – for

1 capacity, which prices should also be provided by AEP Ohio for departing retail
2 customers for the entire term of the ESP based on decisions by FERC and the
3 Commission. Mr. Shanker also will discuss the flaws in AEP Ohio's proposed
4 capacity charge, which is purportedly cost-based and fundamentally inappropriate for
5 the ESP v. MRO comparison and for use as the charge to CRES suppliers serving
6 shopping customers.

7 Finally, FES witness Jonathan Lesser will explain: the errors made by AEP Ohio
8 in calculating the "Competitive Benchmark Price"; the harm caused to Ohio's
9 competitive markets by AEP Ohio's proposed rate design, including its inflated
10 capacity price and double recovery of costs; and that, instead of promoting jobs as
11 AEP Ohio alleges, the proposed ESP would in fact harm Ohio's economy by
12 incentivizing AEP Ohio to make uneconomic generation investments, the significant
13 costs of which its customers would bear for years to come.

14 **II. OHIO'S COMPETITIVE MARKET FOR ELECTRIC SERVICE**
15 **BENEFITS CUSTOMERS**
16

17 **Q. HAVE YOU READ THE LETTER WRITTEN BY JOSEPH HAMROCK,**
18 **WHICH WAS INCLUDED AS THE "EXECUTIVE SUMMARY" TO AEP**
19 **OHIO'S ESP APPLICATION?**

20 A. Yes.

21 **Q. DO YOU AGREE WITH MR. HAMROCK'S STATEMENTS IN HIS LETTER**
22 **REGARDING THE STATE OF THE ENERGY MARKETS IN OHIO?**

23 A. No. Mr. Hamrock's letter (and AEP Ohio's ESP) misstates the status of competition
24 in Ohio's electric energy markets and the benefits that competition brings to Ohio,
25 generally, and to AEP Ohio's customers, specifically. Mr. Hamrock's opinions are

1 based on the conclusion that the competitive generation market established by S.B. 3
2 and S.B. 221 has failed and there is some near-desperate “need” for additional
3 generation in Ohio. This assertion by Mr. Hamrock is simply wrong. Competition
4 and regional markets are working for Ohio and, as a result, there is plenty of
5 generation available to Ohio customers. AEP Ohio is a member of the PJM RTO
6 and, as such, AEP Ohio’s customers benefit from the abundant supply provided
7 through the open, transparent, and competitive PJM energy and capacity markets.
8 FES witness Schnitzer provides detail on the excess capacity available in AEP Ohio’s
9 territory.

10 Competition is the best way to promote lower generation prices for customers, to
11 promote greater productivity and efficiencies from the numerous existing generating
12 plants, to reduce the risk imposed on customers, and to provide the appropriate
13 market signals regarding the need for new generation. An effective competitive
14 market also promotes jobs and economic growth, as discussed by FES witness Lesser.
15 Ohio has experienced and is continuing to experience all of these benefits.

16 **Q. DO YOU AGREE WITH MR. HAMROCK’S STATEMENTS ABOUT THE**
17 **NEED FOR THE PROPOSED ESP TO PROVIDE STABLE PRICING FOR**
18 **CUSTOMERS?**

19 A. No. First, AEP Ohio’s proposed ESP does not provide stable pricing. As I discuss
20 later and as discussed by FES witnesses Schnitzer and Lesser, the proposed ESP
21 includes numerous generation-related riders that can be expected to increase
22 significantly over time. Despite this potential for significant rate instability, AEP

1 Ohio has not calculated any estimates of the potential increases in charges to
2 customers as a result of these riders.

3 Instead, if customers are seeking stable prices, an ESP that procures SSO service
4 through a CBP will provide stability in SSO pricing for the term of the ESP with the
5 added beneficial effects of wholesale competition, including the promotion of lower
6 prices and the elimination of any need for nonbypassable charges to subsidize
7 generation and account for POLR risks. In addition, stable prices can be provided at
8 the retail level in a competitive market. CRES suppliers, including FES, have
9 experience in offering fixed-price long-term contracts. Suppliers in a competitive
10 retail market work with customers to provide such options without the need for AEP
11 Ohio's costly and improper ESP.

12 **Q. DO YOU AGREE WITH ANYTHING MR. HAMROCK SAYS IN HIS**
13 **LETTER?**

14 A. I agree with Mr. Hamrock's assertion regarding the importance of the Commission's
15 decisions in this proceeding. The Commission's decisions here will have a
16 significant impact on customers and the provision of electric service in AEP Ohio's
17 territory, and Ohio, more generally. Its decisions will determine whether *retail*
18 competition is viable in AEP Ohio's service territory and whether CRES providers
19 will have an opportunity to provide retail choice and savings to customers as
20 encouraged and required by state policy. Its decisions will determine whether AEP
21 Ohio's customers also will experience the benefits of *wholesale* competition,
22 including the promotion of lower, more stable pricing. And, the Commission's

1 decisions will determine whether Ohio will be able to attract new businesses and
2 jobs.⁴

3 **Q. CAN YOU EXPLAIN THE BENEFITS OF COMPETITION FURTHER?**

4 A. Yes. Competition – at both the retail level for customers that choose to shop and at
5 the wholesale level for procuring SSO – results in numerous benefits for customers
6 and the economy. First and foremost, competition promotes lower prices to
7 customers in the near- and long-term. A competitive market encourages electric
8 suppliers to reduce their costs in order to secure more customers. These cost
9 reductions may come from reduced supplier profits or increased operating
10 efficiencies. In a competitive market, these cost reductions are then reflected in lower
11 prices that are enjoyed by all customers – including industrial and commercial
12 customers, playing vital roles in the state’s economy. Also, as I noted before, Ohio
13 customers are taking advantage of these savings opportunities – over 1.6 million Ohio
14 customers have chosen to shop for retail electric service. In the FirstEnergy Ohio
15 utilities’ service territory alone, shopping customers have saved over \$100 million
16 annually based on a conservative estimate of a 4% average discount provided by
17 CRES providers. It is not surprising that in a recent national survey, 88% of

⁴ Competition in wholesale and retail electric service promotes jobs in Ohio in several ways. Competition promotes lower energy prices, which serves all Ohio businesses in maintaining and growing their operations. Competition also promotes the location and development of energy businesses in Ohio as these entities seek to compete in both wholesale and retail markets and/or provide related services. FES witness Lesser testifies further regarding the impact of AEP Ohio’s ESP on Ohio’s economy and jobs.

1 respondents said that it was a good idea for consumers to have a choice of electric
2 suppliers.⁵

3 Second, the increased operating efficiencies are an additional benefit of
4 competition, beyond their impact on promoting lower prices. A competitive market
5 encourages suppliers to reduce their costs while maintaining or increasing production
6 – thus, leading to improved operating performance from existing generating plants.

7 Third, competition shifts risk away from customers and on to investors in
8 competitive suppliers, who instead bear the risk of generation investments, including
9 significant investments in environmental controls. Under a non-market-based
10 offering such as that proposed here by AEP Ohio, captive ratepayers bear significant
11 risk for their captor utility's costs, which utility has less incentive to keep costs down.
12 On the other hand, under a market system with effective competition, suppliers have a
13 strong incentive to minimize their costs and make their generation resources more
14 efficient because the suppliers and their shareholders bear the risks of their business
15 decisions.

16 Fourth, competition incentivizes innovation and least-cost solutions for the
17 provision of electric service. Similar to the benefits of improved plant performance, a
18 competitive market encourages suppliers to seek alternative, more efficient means for
19 the provision of generation supply.

⁵ Restructuring Today, "RESA hopes market survey will convince other states," Apr. 29, 2011 (citing *EcoPinion: Resurgence for Retail Electricity Choice and Competition?*, Ecoalign, Survey Report No. 11 (April 2011), available at <http://www.ecoalign.com/news/ecopinion/ecopinion-no-11-resurgence-retail-electricity-choice-and-competition> (last accessed May 13, 2011)). Restructuring Today is a periodical publication widely looked to and relied on by those in the competitive energy industry.

1 Ohio has begun to receive all of these benefits as a result of the state's transition
2 to a competitive market for electric generation service.

3 **Q. HOW DO YOU KNOW COMPETITION IS WORKING IN OHIO?**

4 A. FES is an example of how the competitive market is flourishing in Ohio and how
5 competition encourages additional generation investments. FES has made a number
6 of generation-related investments to facilitate its participation in Ohio's competitive
7 market without shifting the risk of these investments on to customers and without
8 requiring utilities' captive customers to guarantee cost-recovery through
9 nonbypassable charges – all while selling its generation output at competitive prices.
10 Since 2005, FES has invested over \$6 billion in its generating fleet, including over
11 \$1.8 billion in environmental controls, without the ability or need to receive
12 guaranteed cost recovery from distribution customers. Over half of these investments
13 – \$3.5 billion – were made in Ohio generating facilities. In the same time period,
14 FES added the equivalent of a large, baseload power plant to the fleet (over 740 MW)
15 through investments that increased efficiency and productivity of its existing assets.
16 Again, over half of these increases in efficiency and productivity – 464 MW –
17 occurred at FES's Ohio generating facilities. Even beyond FES, significant
18 generation investments have been and continue to be made in Ohio because of
19 competition. Since S.B. 3 was passed, more than 8,300 MW of new generation has
20 been developed in the state, and another 1,800 MW, including 453 MW of renewable
21 energy resources, is scheduled to be added by 2012.

22 In addition, since the adoption of renewable energy resource benchmarks in S.B.
23 221, FES has supported investments in solar and wind generation facilities. For

1 example, FES has entered into agreements for the purchase of solar RECs that
2 support the development of new solar generating facilities at the Cincinnati Zoo &
3 Botanical Garden in Southern Ohio, at a Campbell Soup Company manufacturing
4 facility in Northwest Ohio, and at a First Solar manufacturing facility in Northwest
5 Ohio. Similarly, FES has entered into purchase agreements to support the
6 development of 100 MW of output from the Blue Creek Wind Farm in Western Ohio.

7 These investments are further evidence that the market in Ohio is working and
8 that, contrary to Mr. Hamrock's assertions, adequate incentives exist today for
9 generation investment in Ohio. Indeed, all of the investments and agreements made
10 by FES have been made without asking customers to guarantee cost recovery relating
11 to FES's investment decisions via the need to impose nonbypassable charges on all
12 distribution customers. It is both unreasonable and contrary to state policy to have
13 retail distribution customers support EDU development of uneconomic generating
14 facilities.

15 **Q. IS THERE ANY OTHER EVIDENCE THAT COMPETITION IS WORKING**
16 **IN OHIO?**

17 A. Yes, we also know that competition is working in Ohio because the recent CBPs
18 incorporated into the FirstEnergy Ohio utilities' ESP were very successful and well-
19 received by the Commission, competitive suppliers, the utilities, and customers.
20 These competitive wholesale procurements established an appropriately open and
21 transparent wholesale market that attracted numerous bidders. Indeed, the initial
22 rounds in the recent FirstEnergy Ohio utilities' CBPs were significantly over-

1 subscribed.⁶ As a result of the use of such a CBP, the FirstEnergy Ohio utilities'
2 customers benefited from the promotion of lower prices at the wholesale level,⁷ in
3 addition to the benefits of the competitive retail market that exists in those service
4 territories.

5 In fact, both FES and AEP Ohio's affiliated AEP Service Company ("AEPSC")
6 were successful bidders in the FirstEnergy Ohio utilities' CBPs. AEPSC was
7 awarded 24 tranches in total across the auctions.⁸ These tranches, as awarded,
8 represent, based on the FirstEnergy utilities' historical load data, AEPSC's
9 commitment to serve up to 13 million MWh/year of electric service to customers in
10 the FirstEnergy utilities' service territories. With the significant level of competition
11 and shopping in those territories, AEPSC's tranches currently represent
12 approximately 4 million MWh/year of generation. Therefore, AEPSC is exposed to

⁶ In the 2010 and 2011 auctions, suppliers bid over 210 tranches in the first rounds when the Auction Managers were seeking only 50 tranches in each round. *In the Matter of the Procurement of Standard Service Offer Generation for Customers of Ohio Edison Company, The Cleveland Electric Illuminating Company, and the Toledo Edison Company*, Case No. 10-1284-EL-UNC, Auction Manager's Report, filed Nov. 15, 2010 at p. 3 (211 tranches bid in round 1), and Auction Manager's Report, filed Feb. 17, 2011 at p. 3 (225 tranches bid in round 1). The publically available information from the 2009 auction also reflects over-subscription in the initial round. *See In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan*, Case No. 08-935-EL-SSO, Auction Manager's Redacted Notification of SSO Auction Results, filed Jun. 5, 2009, at p. 3.

⁷ The 2009 auction resulted in a clearing price of \$61.50/MWh, and the 2010/2011 auctions resulted in even lower prices, averaging \$55.60/MWh across the delivery periods. *See ids*.

⁸ *See In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form of an Electric Security Plan*, Case No. 08-935-EL-SSO, Auction Manager's Redacted Notification of SSO Auction Results, filed Jun. 5, 2009, at pp. 4-5; *In the Matter of the Procurement of Standard Service Offer Generation for Customers of Ohio Edison Company, The Cleveland Electric Illuminating Company, and the Toledo Edison Company*, Case No. 10-1284-EL-UNC, Auction Manager's Report, filed Nov. 15, 2010 at pp. 4-5 and Auction Manager's Report, filed Feb. 17, 2011 at pp. 4-5.

1 the risks associated with a potential swing of approximately 9 million MWh/year of
2 generation output if the shopping customers return to SSO service. It is important to
3 note that AEPSC (and all other successful bidders, including FES) agreed to take on
4 this volumetric risk resulting from shopping without the need for a nonbypassable
5 POLR charge such as that proposed by AEP Ohio to serve its own load. As a result,
6 the successful bidders, and not customers, bear the risk of shopping. The CBP also
7 established a favorable price for the FirstEnergy Ohio utilities' SSO. Indeed, AEPSC
8 is serving that 4-13 million MWh/year at a price substantially lower than that AEP
9 Ohio seeks to charge its own customers through the proposed ESP.⁹ This favorable
10 SSO price, in turn, sets the bar for CRES suppliers to beat, which CRES suppliers
11 have apparently done, based on the significant shopping that exists in the FirstEnergy
12 Ohio EDUs' territories.

13 **Q. SHOULD A CBP BE INCORPORATED INTO AEP OHIO'S ESP?**

14 A. Yes. The Commission should require that AEP Ohio modify its proposed ESP to use
15 multiple solicitations to procure a full requirements slice-of-system product,
16 conducted using a descending clock format auction designed to promote open and
17 transparent competitive solicitations with oversight by an independent third party. By
18 procuring SSO supply using multiple procurements conducted over a period of time,
19 the SSO supply portfolio will balance out wholesale market price fluctuations and
20 provide AEP Ohio's SSO customers with a more stable price for a specified period of
21 time. The Commission and suppliers have significant experience with such a CBP

⁹ FES witness Schnitzer explains how the true price of SSO service under AEP Ohio's proposed ESP is actually much higher than AEP Ohio represents because AEP Ohio failed to reflect the additional (and significant) costs that will be imposed on its customers by numerous riders.

1 through the FirstEnergy utilities' recent and successful auctions, which used this
2 descending-clock format and which I discussed earlier.

3 **Q. HOW DOES A CBP BENEFIT CUSTOMERS?**

4 A. As further discussed by FES witness Schnitzer, a CBP involving a slice-of-system
5 product better allows suppliers to mitigate their costs and reduce their financial risks,
6 which should then lead to lower prices for customers. Customers are better protected
7 from market price fluctuations through a CBP. In a CBP, the supplier of full-
8 requirements service bears the risks, including risks relating to price uncertainty,
9 volumetric uncertainty, customer shopping, and other sources. Suppliers are better
10 equipped to manage these risks and mitigate the impact of market variations. As a
11 result, a CBP promotes price certainty for customers. The stability and protection
12 that results from a CBP stands in stark contrast to AEP Ohio's proposed ESP, which
13 includes numerous generation-related riders that are designed to allow AEP Ohio to
14 recoup its varying (and likely increasing) generation costs over the term of the ESP.

15 **Q. DOES FES HAVE ANY OTHER PROPOSALS THAT REFLECT THAT**
16 **THERE COULD BE AN EFFECTIVE COMPETITIVE MARKET IN AEP**
17 **OHIO'S SERVICE TERRITORY?**

18 A. Yes. At the wholesale level, if AEP Ohio does not institute a CBP – which is the best
19 method of incorporating wholesale competition – FES is willing to supply up to 20%
20 of AEP Ohio's combined load on a slice-of-system basis at the SSO price-to-
21 compare¹⁰ without receiving compensation equivalent to the proposed nonbypassable

¹⁰ The "price-to-compare" should include, at a minimum, base generation, transmission, and fuel charges. As I've explained throughout my testimony, AEP Ohio's proposed nonbypassable generation-related riders should be bypassable so that AEP Ohio's customers can enjoy the

1 POLR Charge Rider or the proposed nonbypassable generation-related riders. FES's
2 willingness to serve a significant portion of AEP Ohio's load reflects that suppliers
3 are ready and able to compete to serve as wholesale suppliers in AEP Ohio's service
4 territory. It also supports the fact that competitive suppliers are ready and better able
5 to assume any risk of SSO service without burdening customers with additional
6 nonbypassable charges.

7 On the retail level, if FES does not serve the up to 20% slice-of-system load, FES
8 is willing to match AEP Ohio's "Rate Security Rider" offer. This Rider is an
9 improper competitive offer from a utility contained in an SSO and should not be
10 authorized, which I will discuss in further detail later in my testimony. Regardless,
11 FES, *as a CRES provider*, is ready and able to serve AEP Ohio customers at the retail
12 level as well, and would provide service at the same rates, for the same qualified
13 customers, up to the same total MWhs as those contained in AEP Ohio's proposed
14 RSR. Again, this supports the fact that an effective competitive market can exist in
15 AEP Ohio's territory and that proposed features such as the RSR are unnecessary and
16 ill-contrived as part of an ESP.

17 FES's wholesale and retail proposals not only illustrate that there could be a
18 competitive wholesale and retail market in AEP Ohio's service territory, but also
19 reveal that AEP Ohio could further mitigate the risks or "costs" it has imposed on
20 customers through the POLR Charge Rider. AEP Ohio's justification for the POLR

benefits of effective competition. To the extent those riders are made bypassable, those charges should also be included in the price-to-compare, although FES's offer is not contingent on receiving compensation equivalent to the proposed nonbypassable POLR Charge Rider or the proposed nonbypassable generation-related riders.

1 Charge Rider is the purported risk to AEP Ohio of customers leaving to shop and the
2 risk of customers returning to SSO service. However, under FES's proposals, AEP
3 Ohio would bear no risk associated with the customers served by FES. FES is an
4 experienced wholesale and retail provider, and is comfortable serving these customers
5 at absolutely no increase in cost or other adder to distribution rates. Therefore, even
6 assuming AEP Ohio had any evidence to support the recovery of "costs" through its
7 purportedly cost-based POLR Charge Rider (which it does not), the POLR Charge
8 Rider payable by all customers should be reduced by the proportion of load covered
9 under either of FES's proposals.

10 **III. AEP OHIO'S POLR CHARGE RIDER IS UNNECESSARY**

11 **Q. DO YOU AGREE WITH MR. HAMROCK'S SUGGESTION THAT THE**
12 **PROPOSED POLR CHARGE RIDER IS "REQUIRED"?**

13 A. No.

14 **Q. WHY NOT?**

15 A. Any POLR risk that may exist under the proposed ESP exists only as a result of AEP
16 Ohio's *own choice* to provide SSO generation service itself, rather than employ a
17 CBP. It is improper for AEP Ohio to place the purported costs and risk of shopping
18 on distribution customers when any such risk can be eliminated through a CBP.

19 **Q. WHY WOULD A CBP ELIMINATE THE NEED FOR AEP OHIO'S POLR**
20 **CHARGE RIDER?**

21 A. The use of a CBP as proposed by FES would eliminate any need for the POLR
22 Charge Rider because AEP Ohio would not bear any risk associated with customers
23 shopping. AEP Ohio states that the POLR Charge Rider is designed to recover the

1 “definite and significant cost associated with providing customers th[e] flexibility” of
2 shopping and returning to SSO service.¹¹ However, to the extent any such risk exists,
3 it was AEP Ohio’s choice to retain that risk by choosing the format of their ESP.
4 Under a CBP, suppliers would bear any risk associated with customers shopping – as
5 AEPSC does as a successful bidder in the FirstEnergy Ohio utilities’ auctions without
6 any nonbypassable POLR charges. As those recent auctions demonstrated, a CBP is
7 a successful method by which to procure SSO service and an effective means of
8 minimizing risks on the utility and customers. A CBP also promotes lower prices,
9 including by eliminating the need for the utility to recover any additional “costs”
10 resulting from customers exercising the right to secure generation from another
11 supplier.

12 **Q. DO YOU HAVE ANY OTHER CONCERNS ABOUT THE PROPOSED POLR**
13 **CHARGE RIDER?**

14 A. There are several other problems with AEP Ohio’s proposed POLR Charge Rider.
15 FES witness Lesser explains the flaws in AEP Ohio’s calculation of the proposed
16 POLR Charge Rider. But, even if AEP Ohio was able to support, and the
17 Commission authorized, a POLR charge, AEP Ohio’s application of the POLR
18 Charge Rider is inappropriate.

19 First, if customers shop and waive the POLR Charge Rider, but later seek to
20 return to SSO service, AEP Ohio will require those customers to pay market prices

¹¹ Direct Testimony of Laura J. Thomas on Behalf of Columbus Southern Power Company and Ohio Power Company, filed Jan. 27, 2011 (“Thomas Testimony”) at p. 14.

1 (rather than SSO prices) indefinitely.¹² This requirement harms competition because
2 customers considering shopping may fear the possibility of paying market prices for
3 electric service for an undefined period of time. As a result, customers may be more
4 likely to remain on SSO service (and avoid shopping altogether) and/or may be more
5 likely to pay the POLR Charge Rider if they do shop (and see a reduced benefit from
6 competitive market prices offered by CRES suppliers who must bear the risks of
7 shopping themselves). Either way, AEP Ohio's undefined penalty for returning to
8 SSO service upon waiver of the POLR Charge Rider will burden customers' ability to
9 benefit from the competitive retail market. Such an undefined POLR Charge Rider
10 also is not what the Commission had in mind when it first approved AEP Ohio's
11 POLR charge.¹³ At the very least, customers who shop and return to SSO service
12 during the term of the ESP should only be limited to market prices through the end of
13 the ESP.

14 In addition, customers who cannot shop are subject to the POLR Charge Rider
15 and included in the calculation of the underlying costs associated with the rider. For
16 example, customers who are subject to AEP Ohio's various minimum stay
17 requirements (which I discuss later) and the Rate Security Rider still must pay this

¹² See Thomas Testimony, p. 21; AEP Ohio's Response to OCC INT-043, attached hereto as Exhibit TCB-1.

¹³ The Commission stated at page 40 of its March 18, 2009 Opinion and Order in Case Nos. 08-917-EL-SSO and 08-918-EL-SSO that "[T]he risk of returning customers may be mitigated, not eliminated, by requiring customers that switch to an alternative supplier (either through a governmental aggregation or individual CRES providers) to agree to return to market price, and pay market price, if they return to the electric utility after taking service from a CRES provider, *for the remaining period of the ESP term* or until the customer switches to another alternative supplier." (Emphasis added.)

1 charge¹⁴ even though those customers are locked into AEP Ohio's SSO service for
2 defined periods of time and, thus, do not present any shopping risk during those
3 periods of time. In addition, shopping customers who have entered into a contract
4 with a CRES supplier for a period of time that extends beyond the term of the ESP
5 still must pay this charge even though they similarly present a negligible shopping
6 risk. A POLR Charge Rider purportedly designed to reimburse AEP Ohio for
7 providing the "service" of allowing customers the freedom to shop is, at a minimum,
8 improper as applied to these customers who are precluded from shopping. If the
9 Commission authorizes AEP Ohio to implement the POLR Charge Rider, it should be
10 modified to: limit the penalty to the term of the ESP; clearly define the prices charged
11 to customers upon return to SSO service; and reflect the costs associated with only
12 those customers who are able to shop by leaving and returning to SSO service.

13 **IV. NONBYPASSABLE COST RECOVERY FOR GENERATION-RELATED**
14 **COSTS IS NEITHER NECESSARY NOR APPROPRIATE**
15

16 **Q. DO YOU AGREE, AS SUGGESTED BY MR. HAMROCK, THAT THERE IS**
17 **A NEED FOR EDUs TO BUILD NEW GENERATION IN OHIO WITH**
18 **GUARANTEED COST-RECOVERY FROM THE EDUs' DISTRIBUTION**
19 **CUSTOMERS?**

20 **A. No.**

¹⁴ See AEP Ohio's Response to IEU-Ohio's Int-096 ("customers electing service under the Rate Security Rider will still pay the POLR charge"), attached hereto as Exhibit TCB-2. Although Mr. Hamrock testifies to a termination fee that would suggest that customers have the right to terminate service under the RSR, there is no real right to terminate because if RSR customers shop at any point during the 5-year term, the customers would have to repay "all rate discounts received under this Rider plus a 25% adder within 21 days." See Hamrock Testimony, p. 38; Exh. DMR-5, p. 154.

1 **Q. WHY NOT?**

2 A. FES and other suppliers are ready, willing and able to provide additional generation
3 in AEP Ohio's service territory and across Ohio. There is no shortage of generation
4 supply available to Ohio customers. Indeed, as explained by FES witness Schnitzer,
5 AEP Ohio acknowledges that it has an oversupply of generation itself, and it has
6 ready access to sufficient generation through its membership in PJM. Also, even with
7 AEP Ohio's purported plans to close several generating units to achieve
8 environmental compliance, there is still no need for new generation in Ohio. Mr.
9 Hamrock and AEP Ohio have requested significant cost recovery for building new
10 generation for which there is no need – no need for the additional generation and no
11 need to burden customers with the costs of new facilities for the life of those
12 facilities. If and when that need arises, there will be market participants like FES
13 willing and able to provide additional capacity to serve those needs. As I noted
14 earlier, the over-subscription seen in the FirstEnergy Ohio utilities' CBPs for SSO
15 service confirm that numerous suppliers are interested in supplying generation to
16 Ohio customers.

17 AEP Ohio has not made, or even attempted to make, any showing here that there
18 is a need for additional generation for AEP Ohio's customers – nor has it shown that
19 there is a need for AEP Ohio to build that generation or a need for AEP Ohio's
20 customers to bear the costs of that generation. Ohio has established a competitive
21 market for generation. The market signals when new generation is needed and also
22 determines the most economic manner in which to satisfy that need, as discussed
23 further by FES witnesses Lesser and Schnitzer. FES and other competitive suppliers

1 have responded to those signals and will continue to do so in the future – for as long
2 as the Commission adheres to the state policy supporting competitive markets. There
3 is no need to burden AEP Ohio’s customers with nonbypassable charges for
4 unnecessary and uneconomic generation. This is particularly significant given that
5 the Commission’s approval of nonbypassable cost recovery for competitive
6 generating facilities could saddle customers with significant and unnecessary charges
7 for uneconomic investments for many years to come, over the life of the uneconomic
8 facilities.

9 **Q. DO YOU AGREE WITH MR. HAMROCK’S ASSERTION THAT THE**
10 **“RISKS” IN OHIO’S ENERGY MARKET ARE ONLY OFFSET BY**
11 **GUARANTEED NONBYPASSABLE COST RECOVERY?**

12 A. No. There are numerous cost-effective, alternative solutions that shift the energy
13 market risks from ratepayers to suppliers or investors, alleviate any need for AEP
14 Ohio to build new generation on the backs of its distribution customers, and promote
15 competition in AEP Ohio’s service territories.

16 AEP Ohio should, as I discussed earlier, use a CBP to secure its SSO generation.
17 A CBP would have the additional benefits of attracting qualified suppliers to increase
18 competition and promoting lower generation prices for AEP Ohio’s customers. Other
19 options are competitively procured purchased power agreements or arrangements in
20 which a portion of AEP Ohio’s POLR load is made available for third party suppliers
21 to serve at a discount. Finally, load could be served by parties other than AEP Ohio
22 who are willing to take on the risk of generation investment without forcing
23 ratepayers to shoulder the financial risk or the burden. Indeed, FES has offered to

1 serve up to 20% of AEP Ohio's combined load on a slice-of-system basis without any
2 nonbypassable cost recovery that AEP Ohio claims is "necessary," as I discussed
3 earlier.

4 Any one of these options is a more economic and appropriate solution than AEP
5 Ohio building uneconomic generation and passing the costs through to all customers
6 via a nonbypassable charge. These options place more of the risks back onto
7 competitive suppliers, which could include AEP Ohio's competitive arm – and, that is
8 where the risks belong. AEP Ohio should not be allowed to reduce its competitive
9 risks with non-competitive cost-recovery.

10 **Q. WHAT ARE THE NONBYPASSABLE GENERATION-RELATED RIDERS**
11 **INCLUDED IN AEP OHIO'S ESP?**

12 A. Under the proposed ESP, if customers wish to leave AEP Ohio's SSO service, they
13 remain obligated to pay numerous nonbypassable generation-related charges: the
14 Generation Resource Rider (GRR), the Market Rate Transition Rider (MTR), the
15 Environmental Investment Carrying Cost Rider (EICCR), the Facility Closure Cost
16 Recovery Rider (FCCR), the Carbon Capture and Sequestration Rider (CCSR), the
17 NERC Compliance Cost Recovery Rider (NERCR), the Provider of Last Resort
18 (POLR) Charge, and the Phase-In Recovery Rider (PIRR).

19 **Q. PURSUANT TO R.C. § 4928.02(H), STATE POLICY SEEKS TO "ENSURE**
20 **EFFECTIVE COMPETITION IN THE PROVISION OF RETAIL ELECTRIC**
21 **SERVICE BY AVOIDING ANTICOMPETITIVE SUBSIDIES. . . ,**
22 **INCLUDING BY PROHIBITING THE RECOVERY OF ANY GENERATION-**
23 **RELATED COSTS THROUGH DISTRIBUTION OR TRANSMISSION**

1 **RATES.” DO AEP OHIO’S NONBYPASSABLE GENERATION-RELATED**
2 **RIDERS CONSTITUTE ANTICOMPETITIVE SUBSIDIES?**

3 A. Yes. AEP Ohio’s proposed nonbypassable generation-related riders seek to recover
4 generation costs, including the significant cost of environmental improvements to
5 AEP Ohio’s generating facilities and the purported costs associated with the closure
6 of other generating facilities. And, AEP Ohio seeks to recover these costs from all of
7 its distribution customers. Therefore, these riders constitute anti-competitive cross-
8 subsidies. As I will discuss later, AEP Ohio’s ability to request such subsidies is only
9 made possible by its continued “functional,” as opposed to true, separation. With true
10 corporate separation, AEP Ohio would not be in a position to request recovery of the
11 improper nonbypassable generation-related riders it seeks in the proposed ESP. It
12 should be required to legally separate in accordance with Ohio law.

13 **Q. PURSUANT TO R.C. § 4928.02(C), STATE POLICY SEEKS TO “ENSURE**
14 **DIVERSITY OF ELECTRICITY SUPPLIES AND SUPPLIERS, BY GIVING**
15 **CONSUMERS EFFECTIVE CHOICES OVER THE SELECTION OF THOSE**
16 **SUPPLIES AND SUPPLIERS AND BY ENCOURAGING THE**
17 **DEVELOPMENT OF DISTRIBUTED AND SMALL GENERATION**
18 **FACILITIES.” DO AEP OHIO’S NONBYPASSABLE GENERATION-**
19 **RELATED RIDERS IMPACT THE DIVERSITY AND DEVELOPMENT OF**
20 **ELECTRICITY SUPPLIERS?**

21 A. Yes. AEP Ohio’s proposed nonbypassable generation riders will distort the market
22 for generation and unfairly favor one generation supplier (AEP Ohio) over all other
23 suppliers, who lack the ability to enjoy guaranteed cost recovery. Approval of these

1 riders also will discourage the participation of other suppliers, who will be unable to
2 compete with AEP Ohio's prices for two reasons: AEP Ohio's generation costs are
3 being inappropriately subsidized by all distribution customers; and AEP Ohio's price-
4 to-compare is inappropriately and artificially low, as discussed further by FES
5 witness Lesser. AEP Ohio's other procedural barriers to competition in its service
6 territory, which I will discuss later, also burden competition and the development of
7 electricity suppliers.

8 **Q. PURSUANT TO R.C. § 4928.02(I), STATE POLICY SEEKS TO “ENSURE**
9 **RETAIL ELECTRIC SERVICE CONSUMERS PROTECTION AGAINST**
10 **UNREASONABLE SALES PRACTICES, MARKET DEFICIENCIES, AND**
11 **MARKET POWER.” DO AEP OHIO’S NONBYPASSABLE GENERATION-**
12 **RELATED RIDERS PROVIDE SUCH PROTECTION?**

13 A. No. To the contrary, AEP Ohio's nonbypassable generation riders (and other facets
14 of the proposed ESP, including unsupported requests for cost recovery and the
15 improper competitive Rate Security Rider offered through a SSO) result in one
16 generation supplier being favored over all others. As an EDU that still owns
17 competitive generating facilities, AEP Ohio is able to use its position as the EDU to
18 recover its competitive generation costs from all of its noncompetitive distribution
19 customers. If AEP Ohio did not own generating facilities (as it could not if it had
20 achieved legal separation), there would be no basis on which it would or could seek
21 generation costs from its distribution customers. Further, AEP Ohio's requested
22 nonbypassable recovery for generation costs distorts the competitive market for
23 generation service. Such cost recovery allows AEP Ohio to artificially reduce its

1 price-to-compare and to provide an uneven playing field for CRES suppliers. CRES
2 suppliers cannot effectively compete when AEP Ohio is able to fund its competitive
3 generating facilities with charges imposed on customers who do not receive their
4 generation service and therefore must pay twice for generation costs.¹⁵ AEP Ohio's
5 proposed nonbypassable generation-related riders expose customers to distorted
6 market power and deficiencies in the competitive market. As a result, AEP Ohio's
7 customers would not enjoy the benefits of effective competition.

8 **Q. PURSUANT TO R.C. § 4928.02(A) AND (B), STATE POLICY SEEKS TO**
9 **“ENSURE THE AVAILABILITY TO CONSUMERS OF . . .**
10 **NONDISCRIMINATORY, AND REASONABLY PRICED RETAIL**
11 **ELECTRIC SERVICE” AND “ENSURE THE AVAILABILITY OF**
12 **UNBUNDLED AND COMPARABLE RETAIL ELECTRIC SERVICE”**
13 **DO AEP OHIO’S NONBYPASSABLE GENERATION-RELATED RIDERS**
14 **CONSTITUTE NONDISCRIMINATORY, REASONABLY PRICED,**
15 **UNBUNDLED, OR COMPARABLE RETAIL ELECTRIC SERVICE?**

16 A. No. To the contrary, AEP Ohio's numerous nonbypassable generation riders
17 discriminate against shopping customers who must (unreasonably) pay twice for
18 generating costs and pay for costs associated with generation service that they do not
19 use. In addition, and as I mentioned earlier, the nonbypassable generation riders
20 allow AEP Ohio to artificially reduce the price-to-compare and distort any accurate or

¹⁵ It should be noted that if AEP Ohio was allowed to recover its generation costs from all distribution customers and artificially lower its price-to-compare, it would distort not only the competitive market in AEP Ohio's service territory, but other markets as well. AEP Ohio would be able to offer artificially low generation prices in the numerous other states in which it sells generation.

1 fair comparison between AEP Ohio's proposed SSO and CRES suppliers' offers.
2 AEP Ohio's customers, therefore, are precluded from receiving the full benefits of
3 competition, including the promotion of lower prices that results when suppliers can
4 effectively compete against each other. To that end, AEP Ohio's proposed ESP,
5 which incorporates these improper riders, cannot be said to facilitate the state's
6 effectiveness in the global economy either – just AEP Ohio's.

7 **Q. DO AEP OHIO'S NONBYPASSABLE GENERATION-RELATED RIDERS**
8 **IMPACT THE LIKELIHOOD OF SHOPPING?**

9 A. Yes. The presence of these nonbypassable charges and the other barriers to
10 competition in AEP Ohio's proposed ESP means that customers have an economic
11 disincentive to switch to CRES providers – and an incentive to stay with AEP Ohio's
12 own generation service. Customers that take generation supply service from a CRES
13 provider will be forced to also pay for costs attributable to the generation service
14 provided by AEP Ohio to SSO customers. Thus, shopping customers will be paying
15 twice for the same service – first to AEP Ohio (for services they do not receive) and
16 also to the CRES provider (for services they do receive). In turn, AEP Ohio will have
17 little incentive or pressure to lower its SSO rates, to the detriment of its customers.

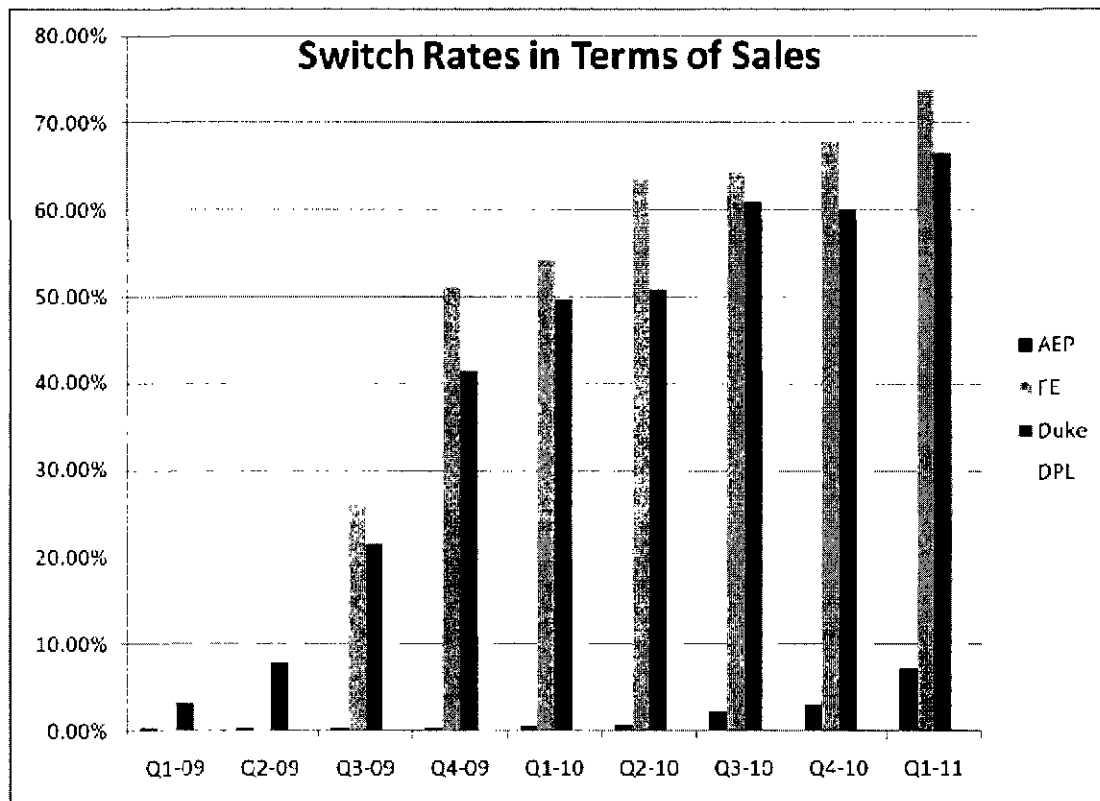
18 **Q. HAVE THERE BEEN PROBLEMS WITH CULTIVATING A**
19 **COMPETITIVE RETAIL ELECTRICITY MARKET IN AEP OHIO'S**
20 **SERVICE TERRITORY?**

1 Yes. AEP Ohio's shopping rates are the lowest rates in the entire state.¹⁶ According
2 to the PUCO Division of Market Monitoring & Assessment's report for the quarter
3 ending March 31, 2011, AEP Ohio has a combined switch rate of 7.11% in terms of
4 sales.¹⁷ This is significantly lower than the other Ohio EDUs, which have switch
5 rates ranging from 35.75% to 81.25%.¹⁸ The graph below, based on data from the
6 PUCO Division of Market Monitoring & Assessment, which was referenced by AEP
7 Ohio witness Thomas in separate, non-comparative charts, illustrates the vast
8 difference in shopping rates in terms of sales between AEP Ohio and the other EDUs:

¹⁶ As I will discuss later, there are a number of existing barriers to shopping that exist in AEP Ohio's service territory and that AEP Ohio plans to continue, in addition to the new components of the proposed ESP that are anti-competitive.

¹⁷ See PUCO, Division of Market Monitoring & Assessment, "Summary of Switch Rates from EDUs to CRES Providers in Terms of Sales For the Month Ending March 31, 2011" (noting switch rates of 15.36% for Columbus Southern and 0.49% for Ohio Power).

¹⁸ *Id.*



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Indeed, AEP Ohio has not tried to hide its attempts to eliminate shopping in its service territory. AEP's CEO has stated, "I don't like customers switching in Ohio" and that "there is a concern over the opportunity of customers to shop."¹⁹ During a January 28, 2011 earnings call, AEP's CFO admitted that AEP has instituted "regulatory responses to customers switching" that will continue.²⁰ AEP's CEO in that same earnings call admitted that "the rate design activities that are filed in the

¹⁹ AEP-Q3 2010 American Electric Power Earnings Conference Call, Oct. 19, 2010, transcript available from SeekingAlpha, at <http://seekingalpha.com/article/230930-american-electric-power-ceo-discusses-q3-2010-results-earnings-call-transcript?part-qanda> (last accessed Jul. 23, 2011), cited portion attached hereto as Exhibit TCB-3; Sanford C. Bernstein & Co. Strategic Decisions Conference, Fireside Chat with Mike Morris, AEP Chairman and CEO, Jun. 1, 2011, webcast available at <http://www.aep.com/investors/webcats/> (last accessed Jul. 22, 2011), cited portion attached hereto as Exhibit TCB-4.

²⁰ AEP-Q4 2010 American Electric Power Earnings Conference Call, Final Transcript, Jan. 28, 2011); *see also* AEP Ohio's Response to FES RFA 9-002 and 9-003 (admitting to the CFO's statement), attached hereto as Exhibits TCB-5(a) and (b).

1 ESP[,] when we get to 2012, *I think you will see a real drop-off in the number of*
2 *shopping customers.* They will still be there and still have the freedom to do that, *but*
3 *their economic advantage will be to stay on the AEP system as a retail customer.*²¹

4 And, as can be seen from the terms of AEP Ohio's proposed ESP, particularly the
5 nonbypassable generation-related riders, AEP Ohio is clearly trying to accomplish the
6 objectives stated by its executives.

7 AEP Ohio should not be allowed to use nonbypassable charges to artificially
8 lower the price-to-compare and circumvent the state's policy of promoting
9 competition.²² AEP Ohio's customers should have access to the benefits of a
10 competitive retail market that customers of other EDUs around the state have
11 enjoyed.

12 **Q. COULD CHANGES IN AEP OHIO'S CORPORATE STRUCTURE HELP TO**
13 **ALLOW FOR EFFECTIVE COMPETITION IN ITS SERVICE TERRITORY?**

14 A. Yes. AEP Ohio must be required to abide by the statutory requirement for corporate
15 separation of its distribution and generation services. Legal separation is long
16 overdue for AEP Ohio, and such separation would help to prevent AEP Ohio from
17 continuing its anti-competitive conduct. Indeed, true corporate separation is required

²¹ AEP-Q4 2010 American Electric Power Earnings Conference Call, Final Transcript, Jan. 28, 2011) (emphases added); *see also* AEP Ohio's Response to FES RFA 6-005 (admitting to the CEO's statement), attached hereto as Exhibit TCB-6.

²² For example, the MTR is a rate mitigation method that AEP Ohio says will ease the transition between AEP Ohio's current rate structure and the proposed rate structure. As this is a generation-related charge, it should be bypassable. Indeed, where such a temporary mitigation measure is made available to all rate classes in other states in which FES operates, the mitigation measure has been included in the customers' price-to-compare – such as is done in the Duquesne Light, Pennsylvania Power and PECO service territories.

1 to prevent the improper nonbypassable cross-subsidies found in the proposed ESP
2 and to provide the actual generation price-to-compare.

3 AEP Ohio acknowledged in 2009 that its request for its existing “functional
4 separation can only be permitted for an interim period. The underlying requirement
5 remains for corporate separation of the provision of competitive retail electric service
6 from the provision of noncompetitive retail electric service.”²³ AEP Ohio also
7 asserted that the term of the current ESP, set to expire in December 2011 – *over ten*
8 *years after the requirement for legal separation was enacted* – was a “reasonable
9 extension period of functional separation.”²⁴ Any additional extension is
10 inappropriate and improper, and is not supported by the state’s policies.

11 The terms of AEP Ohio’s proposed ESP (including the numerous nonbypassable
12 generation-related riders and the improper competitive offer from a utility for certain
13 industrial customers) and AEP’s stated admissions to its investors reveal that AEP
14 Ohio has not lived up to, and will not live up to, Ohio policy regarding competition in
15 the provision of electric generation service. AEP Ohio should not be allowed to
16 continue “functional separation” to the detriment of its customers and competition; it
17 should be required to effect the true corporate separation.

18 **Q. DOES FES HAVE ANY OTHER PROPOSALS REGARDING THE**
19 **BYPASSABILITY OF AEP OHIO’S PROPOSED GENERATION-RELATED**
20 **RIDERS?**

²³ *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Their Corporate Separation Plans*, Case No. 09-464-EL-UNC, Application, at p. 4.

²⁴ *Id.*

1 A. Yes. If the Commission decides not to deny the proposed ESP in its entirety, the
2 Commission should, at a minimum, require that AEP Ohio modify the proposed ESP
3 to make the generation-related riders GRR, CCSR, FCCR, NERCR, and EICCR
4 bypassable. To the extent these riders are not eliminated altogether, as many of them
5 should be, these riders should be bypassable because they violate state policy, and
6 improperly favor AEP Ohio's own competitive generation service. These riders also
7 improperly distort the price-to-compare (and thereby preclude effective competition)
8 by spreading SSO customers' generation costs over all customers. It is inappropriate
9 for shopping customers to pay generation costs for AEP Ohio's SSO generation
10 service, which those customers do not receive.

11 V. **THE PROPOSED ESP PROMOTES AEP OHIO'S OWN GENERATION**
12 **SERVICE**
13

14 Q. DOES THE PROPOSED ESP CONTAIN ANY PROVISIONS THAT FAVOR
15 AEP OHIO'S COMPETITIVE GENERATION SERVICE?

16 A. Yes. In addition to the nonbypassable riders that enable AEP Ohio to lower its price-
17 to-compare and that provide for recovery of generation costs from all customers, the
18 proposed ESP contains at least two other illustrations of how the proposed ESP favors
19 AEP Ohio's competitive generation service: the Rate Security Rider and the shifting
20 of costs towards customers who are less likely to shop, which is discussed by FES
21 witness Lesser.

22 Q. WHAT IS YOUR UNDERSTANDING OF AEP OHIO'S PROPOSED RATE
23 SECURITY RIDER?

24 A. AEP Ohio's proposed ESP offers a discounted generation rate for customers willing
25 to commit to SSO service from AEP Ohio for the period of January 2012 through

1 May 2017. The discount would be 15% off the current generation rate through the
2 term of the ESP, which decreases 5% per year off the May 2014 SSO rate for the
3 *remaining three years of the offer. This option excludes certain standard industrial*
4 *classification codes, and is only available to customers with annual peak demands*
5 *greater than 200 kW on a first come, first served basis up to 2,500 GWh.*²⁵

6 **Q. WHAT ARE FES'S CONCERNS ABOUT AEP OHIO'S PROPOSED RATE**
7 **SECURITY RIDER?**

8 A. The RSR is an improper competitive offer from an EDU contained in an SSO. It is
9 my understanding that an SSO is an offer for generation service open to all EDU
10 customers. However, the RSR is limited to customers within certain SIC codes and
11 only a certain number of customers within those certain SIC codes based on the load
12 limitation set by the RSR. The RSR, therefore, discriminates amongst customers in
13 the same SIC by offering an SSO of a different price for some, but not all, customers
14 in that SIC, in violation of R.C. § 4928.141(A). Further, AEP Ohio has made no
15 attempt to show that the RSR can be approved by the Commission as an economic
16 development program. It has not bothered to explain why offering only these certain
17 customers up to the specific load limit would benefit the Ohio economy or result in an
18 *increased number of jobs. As a result, it cannot be said that the RSR constitutes a*
19 *benefit of the proposed ESP – particularly when it is a competitive offer that could be*
20 *matched or beaten by CRES suppliers (as evidenced by FES's proposal) under either*
21 *an ESP or an MRO.*

²⁵ See Direct Testimony of David M. Roush on Behalf of Columbus Southern Power Company and Ohio Power Company ("Roush Testimony"), at pp. 7-8; see also *id.* at Ex. DMR-5, p. 153-154.

1 Such a competitive offer by an EDU also is contrary to state policy, which seeks
2 to ensure effective competition and ensure retail electric service consumers protection
3 against market deficiencies and market power. Instead of such an improper rider, this
4 load should be placed up for competitive bid or, at the very least, these customers
5 should be given sufficient time to evaluate competitive offers from other suppliers
6 before the closure of the “election period” as proposed by AEP Ohio for the RSR.²⁶

7 The RSR is also inappropriate because it locks customers into AEP Ohio’s SSO
8 service until May of 2017, which is 3 years beyond the end of the ESP, but at the
9 same time: (a) subjects RSR customers to the POLR Charge Rider; and (b) includes
10 RSR customers in the POLR Charge calculation. Customers taking service under the
11 RSR should be treated as other AEP Ohio special contract customers, such as Ormet
12 and Eramet, which the Supreme Court recently confirmed should not be obligated to
13 pay the POLR Charge Rider.²⁷ The RSR is improper and should be eliminated.

14 FES also has concerns about the legitimacy of the statement that “there would be
15 no ‘delta revenue’ created under the RSR; non-participating customers do not pay for
16 the discount and the Company would not recover the discount that is administered
17 through the Rate Security Rider.”²⁸ Although there is no specific rate mechanism
18 identified to recover this delta revenue, AEP Ohio’s generation rates are essentially a
19 “black box” that do not reflect either cost-based or market-based pricing
20 relationships, as discussed further by FES witness Lesser. For this reason, it is

²⁶ Hamrock Testimony, p. 38 (explaining that the RSR will only be open for customers for the first three months after implementation of the proposed ESP).

²⁷ *In re Application of Ormet Primary Aluminum Corp.*, 129 Ohio St.3d 9 (2011).

²⁸ Application, p. 13.

1 unclear whether ratepayers are paying for this delta revenue somewhere, even if it is
2 not specifically revealed in the ESP application.

3 **VI. NUMEROUS OF AEP OHIO'S RIDERS ARE UNSUPPORTED**

4 **Q. IN ADDITION TO NONBYPASSABILITY, DO YOU HAVE ANY OTHER**
5 **CONCERNS REGARDING AEP OHIO'S PROPOSED RIDERS?**

6 A. Yes. AEP Ohio has provided little to no support for many of its riders, including the
7 NERCR, CCSR, FCCR, and EICCR, while at the same time claiming that each of
8 them is cost-based. In fact, they are little more than placeholders. AEP Ohio has
9 provided no specificity regarding the purported losses or costs that it will seek to
10 recover through these riders. AEP Ohio cannot meet its burden to establish its right
11 to such cost recovery without any support or justification for the recovery of some
12 undetermined amount of costs. For example, AEP Ohio has no estimate of the costs
13 to be recovered through the NERCR during the proposed ESP.²⁹ As to the EICCR, in
14 response to a request for estimates through the term of the proposed ESP, AEP Ohio
15 provided only an estimate for 2012, but no information for the remainder of the ESP
16 period.³⁰ The limited estimates provided for the CCSR are only preliminary.³¹ As to
17 the FCCR, AEP Ohio has similarly stated that it is unable to quantify the revenue or
18 costs that it will recover based on the closure of a generation facility during the term

²⁹ See AEP Ohio's Response to IEU INT-010, 016, 022, attached hereto as Exhibits TCB-7(a), (b) and (c).

³⁰ See AEP Ohio's Response to FES INT 1-001 (referring to AEP witness Moore's testimony at AEM-1, "Estimate of 2012 Environmental Investment Carrying Cost Rider"), attached hereto as Exhibit TCB-8.

³¹ See Direct Testimony of Philip J. Nelson on Behalf of Columbus Southern Power Company and Ohio Power Company ("Nelson Testimony") at p. 21; AEP Ohio's Response to FES INT 1-001 (Exh. TCB-8).

1 of the proposed ESP and that it will seek to recover under the FCCR.³² AEP Ohio
2 witness Thomas simply testifies that AEP Ohio is “unable to determine the total
3 cost.”³³ AEP Ohio could pass along significant costs to customers through these
4 placeholder riders. These allegedly “cost-based” riders are unsupported and should
5 be denied on that basis alone.

6 In addition, AEP Ohio’s failure to populate these riders with costs also means that
7 it cannot meet its burden to establish that the proposed ESP is more favorable in the
8 aggregate than the expected results of an MRO. These riders must be considered by
9 the Commission in assessing whether the proposed ESP has satisfied the statutory test
10 for ESPs – an especially important consideration given that the riders represent
11 potentially significant charges to customers. AEP Ohio’s failure to provide sufficient
12 — or any — estimates for the proposed riders prevents the Commission from making
13 the required assessment of the ESP and, therefore, the proposed ESP as a whole must
14 be denied.

15 **Q. DOES FES HAVE ANY OTHER CONCERNS REGARDING THE CARBON**
16 **CAPTURE AND SEQUESTRATION RIDER?**

17 A. Yes. In addition to the concerns raised by FES witness Lesser, it is not clear that
18 Ohio customers would receive any benefits from the Phase I Front-End Engineering
19 and Design (“FEED”) study that would support passing on the costs to Ohio
20 customers. First, AEP Ohio recently decided to place on hold the underlying CCS

³² See AEP Ohio’s Response to IEU INT-025, attached hereto as Exhibit TCB-9.

³³ Thomas Testimony, p. 25

1 project.³⁴ The first phase of a project that may never be completed cannot be said to
2 benefit customers, or at the very least would significantly reduce any benefit to
3 customers. Even if the project goes forward some day, to the extent the deliverables
4 that will result from the FEED study cannot be replicated in Ohio plants, Ohio
5 customers should not be obligated to bear the costs associated with those deliverables.
6 For example, the preliminary engineering and the geologic characterization study are
7 likely only applicable to Appalachian Power Company's Mountaineer Plant site,
8 which is located in West Virginia. These costs should be broken out and should not
9 be allocated to Ohio. In addition, the FEED costs appear to constitute research and
10 development (R&D) costs associated with generating facilities, which should not be
11 recoverable through an ESP. Of course, regardless of which costs end up in the
12 CCSR (if any), this rider is collecting generation-related costs, and should therefore
13 be bypassable.

14 Moreover, while this rider is purportedly only recovering a portion of the costs
15 associated with the FEED study during the term of the proposed ESP and while AEP
16 Ohio has placed the subsequent project on hold, AEP Ohio has stated that it expects
17 to recover the costs of the entire project in the future through the CCSR. In such a
18 scenario, captive Ohio customers would be expected to pay for almost half (43.4%)³⁵
19 of the entire project, despite the fact that the CCS facility in question will be

³⁴July 14, 2011 AEP Press Release, "AEP Places Carbon Capture Commercialization on Hold, Citing Uncertain Status of Climate Policy, Weak Economy," attached hereto as Exhibit TCB-10.

³⁵ AEP Ohio's Response to Staff INT 18-01, attached hereto as Exhibit TCB-11; *see also* AEP Ohio's Response to FES INT 1-041 (if AEP decides to go forward with the facility, AEP Ohio will make another filing with the Commission to recover AEP Ohio's revenue requirements for the project), attached hereto as Exhibit TCB-12.

1 developed at the Mountaineer Plant – which is located in West Virginia, not Ohio.
2 AEP Ohio also has not established that the facility is dedicated to Ohio customers.
3 AEP Ohio should not be allowed to recover under a rider that could potentially seek
4 to recover millions of dollars annually for generation-related costs from all
5 distribution customers when AEP Ohio has not provided any annual revenues or rates
6 to be recovered during the term of the proposed ESP and the benefits received by
7 Ohio customers are unclear.³⁶

8 VII. AEP OHIO HAS INSTITUTED BARRIERS TO COMPETITION

9 Q. WHAT OTHER BARRIERS TO COMPETITION EXIST IN AEP OHIO'S 10 TERRITORY?

11 A. Unfortunately, barriers to retail competition in AEP Ohio's service territory are not a
12 new thing. AEP Ohio's past practices have created a number of existing barriers to
13 retail competition in its territory, which AEP Ohio seeks to continue under the
14 proposed ESP. These barriers include: (1) burdensome rules related to switching; (2)
15 the elimination of certain rate schedules from the shopping tariff, which forces
16 shopping customers to lose distribution discounts; and (3) the failure to offer billing
17 options provided by other Ohio utilities.

18 All of these components of AEP Ohio's retail service contradict the state's
19 policies of ensuring the availability of nondiscriminatory electric service, encouraging
20 cost-effective and efficient access to information regarding the operation of
21 distribution systems to promote effective customer choice of retail electric service,

³⁶ See AEP Ohio's Response to IEU INT-034, attached hereto as Exhibit TCB-13.

1 and ensuring retail electric service consumers protection against unreasonable sales
2 practices, market deficiencies and market power.

3 **Q. WHAT ARE FES'S CONCERNS REGARDING AEP OHIO'S SWITCHING**
4 **RULES?**

5 A. AEP Ohio imposes a number of anti-competitive rules that inhibit customers' ability
6 to benefit from a competitive market: a 12-month minimum stay for medium and
7 large commercial and industrial customers; a requirement for small commercial
8 customers returning to SSO service to stay on SSO service through April 15 if the
9 customer received SSO service at any time during the previous May 16 through
10 September 15; a requirement that customers over 500 kW in demand provide 90-days
11 written notice before switching to a CRES provider; and a \$10 switching fee.³⁷ It
12 should be noted that many of these burdensome rules are selectively targeted to high
13 energy-using customers. By implementing these rules, AEP Ohio makes it more
14 difficult for customers to switch, and thereby hinders effective competition and favors
15 its own generation service. To the extent AEP Ohio bases these rules on an effort to
16 mitigate shopping risks, the rules represent another anti-competitive facet of AEP
17 Ohio's proposed ESP that would be unnecessary if a CBP was used to secure SSO
18 service.

19 **Q. WHAT ARE FES'S CONCERNS REGARDING AEP OHIO'S CUSTOMER**
20 **SWITCHING FEE?**

³⁷ AEP Ohio's calculation of the POLR Charge Riders reflects that AEP Ohio intends to continue these switching rules through the term of the proposed ESP. See Thomas Testimony, pp. 18-19.

1 A. I have concerns about the amount of the fee and the billing method, both of which
2 create unnecessary barriers to competition. AEP Ohio's switching fee is significantly
3 higher than the other Ohio EDUs. Dayton Power & Light and the FirstEnergy Ohio
4 utilities charge \$5 per switch and Duke charges \$7, whereas AEP Ohio charges \$10
5 per switch. In addition, AEP Ohio charges this switching fee directly to customers,
6 instead of allowing the supplier to pay the fee, as is the practice in the Duke and
7 FirstEnergy Ohio utility territories. The increased fee and the direct billing of that fee
8 to customers have a negative impact on competition by placing additional penalties
9 on customers who shop.

10 **Q. WHAT IS THE IMPACT OF THE DIFFERENCES BETWEEN THE**
11 **UNBUNDLED STANDARD TARIFF AND THE OPEN ACCESS**
12 **DISTRIBUTION TARIFF?**

13 A. The existence of separate rate books for shopping and non-shopping customers is
14 discriminatory, unnecessary, and potentially confusing for customers. While AEP
15 Ohio does not specifically address both rate books in this filing, it appears, based on
16 the inclusion of both rate books in the distribution rate case (Case Nos. 11-351-EL-
17 AIR and 11-352-EL-AIR), that AEP Ohio intends to continue this practice. As a
18 result, there are certain rate schedules or optional provisions available to non-
19 shopping customers that are not available to shopping customers. For example,
20 tariffs such as residential load management and residential provisions such as water
21 heating storage exist in AEP Ohio's Unbundled Standard tariff books, but no similar
22 rates or provisions exist in the Open Access Distribution tariff. As such, if these
23 customers shop, they lose their distribution discounts as their service is moved to the

1 standard residential distribution rate. There is no justification or rational basis for this
2 discriminatory treatment against shopping customers. Any difference in charges
3 applied to shopping and non-shopping customers – whether distribution or
4 generation-related – will impact the competitive marketplace and, therefore, should
5 be eliminated.

6 **Q. WHY IS RATE-READY CONSOLIDATED BILLING IMPORTANT?**

7 A. AEP Ohio currently offers bill-ready billing, meaning that the supplier calculates the
8 total bill amount based on its charges and sends it to AEP Ohio for printing on a
9 consolidated bill. In a rate-ready billing scenario, the supplier would simply let AEP
10 Ohio know which rate a customer should be on, and AEP Ohio would calculate the
11 supplier charges to be included on a consolidated bill. AEP Ohio is the only utility in
12 the state that does not offer rate-ready consolidated billing, which is a barrier to
13 effective retail competition in AEP Ohio's territories.

14 A utility's offer of both rate-ready and bill-ready consolidated billing facilitates
15 competition, including allowing flexibility for competitive offers.³⁸ For example,
16 rate-ready billing promotes efficiencies because competitive suppliers utilize the
17 utility's existing billing system, rather than building separate, duplicative, and
18 complicated billing scripts to perform the calculations.

19 More importantly, rate-ready billing provides more clarity for customers because
20 customers are provided with more consistent, complete, and timely bills. On the
21 other hand, bill-ready billing is dependent on an increased need for repeated

³⁸ To maximize flexibility in product offerings, rate-ready billing should include the ability to register kWh charges, kW charges, flat fixed monthly charges, percentage of PTC, or any combination of those components

1 communications between the supplier and the utility – which increases the risk of
2 delays or errors. Delays in certain exchanges may result in customers receiving an
3 incomplete bill from the utility and the receipt of a separate and/or delayed bill from
4 the supplier. Randomly receiving bills from both the utility and the supplier is
5 extremely confusing for the customer.

6 Another advantage of rate-ready billing is that it allows utilities to more easily
7 include supplier charges when determining the budgeted amount for customers on
8 equal payment plans. Many budget-billed customers in Ohio today do not take
9 advantage of the products offered by suppliers because they don't want to lose their
10 ability to receive a single budget bill for all charges. AEP Ohio should be required to
11 offer rate-ready billing and to include supplier charges in the budget amount, so that
12 this group of customers will be better able to enjoy the benefits of competition.

13 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE BARRIERS TO**
14 **COMPETITION THAT YOU JUST DESCRIBED?**

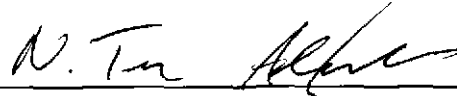
15 A. The Commission should modify the terms and conditions of AEP Ohio's service to
16 remove these barriers to shopping in its service territory. Whether the ESP is rejected
17 in its entirety (as it should be) or modified, the burdensome minimum stay
18 requirements, switching fees, the confusing system of two rate books, and billing
19 limitations should be removed to make the ESP consistent with the state's policy of
20 ensuring effective competition for electric generation service. Indeed, these barriers
21 must be removed to allow for AEP Ohio's customers to enjoy the benefits and
22 savings provided as a result of a competitive market.

23 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

1 A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Direct Testimony of Tony C. Banks on Behalf of FirstEnergy Solutions Corp.* was served this 25th day of July, 2011, via e-mail upon the parties below.



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**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S RESPONSE TO
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL
DISCOVERY REQUEST
CASE NO. 11-346-EL-SSO AND 11-348-EL-SSO
FIRST SET**

INTERROGATORY

INT-043.

At page 21 of Thomas' testimony she asserts that a customer's commitment to market pricing should extend beyond the term of the proposed ESP. a)- Please point to Ohio statute or PUCO rule which supports your contention b) - please explain how your proposal is captured in your BS model and how a denial of this request would affect the inputs to the model c) - Are you asserting that customers who switch prior to the end of the current ESP should not be allowed to return to the SSO price at any point in the future? If so, please point to PUCO orders which support this assertion.

RESPONSE

- a. The Company objects to this request as seeking a legal conclusion or opinion that is not attributable to a witness and is more appropriate for briefing and argument by counsel. Without waiving this objection or any general objection the Company may have, the Company states as follows. The Company is proposing to extend the same restriction that currently exists into the new ESP and the same legal basis exists to adopt the restriction with respect to the new ESP as applied in the initial ESP; the restriction is not prohibited by any rule or statute and was not challenged on rehearing or appeal.
- b. The POLR model computes the POLR charge on a \$/MWH basis. Therefore, there is no impact on the POLR model from a customer who chooses to switch to a CRES provider and chooses to avoid the POLR charge in exchange for the commitment to pay market prices if they return to service from the Company.
- c. It is the Company's proposal that those customers who switch to a CRES provider prior to the end of the current ESP and who committed to pay market prices if they return to service from the Company should continue that obligation if they return to the Company at any time.

Prepared by: Laura J. Thomas/Counsel

**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S RESPONSE TO
INDUSTRIAL ENERGY USERS-OHIO
DISCOVERY REQUEST
CASE NO. 11-346-EL-SSO AND 11-348-EL-SSO
SECOND SET**

INTERROGATORY

INT-096. Is there any adjustment in the POLR to account for customers electing service under Rate Security Rider? Explain the basis for either an affirmative or negative response.

RESPONSE

There is no adjustment to the POLR determination for several reasons, including: a) customers electing service under the Rate Security Rider will still pay the POLR charge; b) customers retain their shopping rights under the rider, therefore, there is no reduction to the Company's risk; and c) the Company is unable to predict which customers might elect service under the rider.

Prepared by: Thomas

FINAL TRANSCRIPT

Thomson StreetEventsSM

AEP - American Electric Power Investor Meeting & Q3 2010 Earnings Results

Event Date/Time: Oct. 19, 2010 / 12:00PM GMT



Oct. 19. 2010 / 12:00PM, AEP - American Electric Power Investor Meeting & Q3 2010 Earnings Results

Mike Morris - American Electric Power Co. - Chairman, President, CEO

So because I'm as old as I am I'll go from the back first. The concept on merging the two is positive and what we think, too. We have been running them as single companies. This, we think, is just a better way over time to blend together the rate structure so that has a constructive impact on the potential shopping. Not enough to make it as though it would seem to dampen shopping, and that we think is important with the regulators because I'm sure the Commission, as I shared with you yesterday, they're pretty pleased with what they've created. Today's market may be an anomaly, it may not be. It may be a longer term play.

Equally important, bringing the two companies together, we think, gives us the opportunity to address the SEET clearly in the tail end of -- I think 2009, as I've told you a million times, will work out just fine.. 2010 will be an open issue. We'll find an answer for 2010 as that year unfolds in early '11, and we're reviewing the performance of the Ohio companies.

By the 2011 -- 2012 review of 2011 it'll be a moot point because blending the companies together will give returns on equity that will fall well within the guidelines and the guidances. So we see a couple of pluses. And right now it's just -- we've met with the customers, we've met with everybody you can meet with. There's just no pushback whatsoever. The time is right to do that. So that's the logic behind that one.

Brian Tierney - American Electric Power Co. - EVP, CFO

GDP growth is slightly above consensus for national averages in the west part of our system and slightly below consensus for national average in the east part of our system, as is unemployment. So unemployment drives a little bit higher in the east part of our system than it does in the west, and so we're moderately above GEP in the east -- I'm sorry -- in west, and moderately below in the east part of our system.

Mike Morris - American Electric Power Co. - Chairman, President, CEO

So it's like 2% give or take, so in the east it's a little less than that, and the west a little stronger than that. And we don't think that's outside of what you're seeing the general macroeconomic folks talking about. In Appalachian Power, Charles and I and the Appalachian Power team had an opportunity to meet with Governor McDonnell and his team last week.

I would argue at the executive level the pressure on Appalachian Power of Virginia is off. We are clearly in a political season there. You'll continue to hear one of the House of delegates who wants to become a stronger player in the politics banging on us, but I think the Governor's team and our team are working together very closely. West Virginia rate case moving along fine, we don't see any bumps in the road.

Remember the logic behind Charles Patton going up there. He came from Houston Lighting and Power with a lot of years of success, and then came over with AEP to do our lobbying in Austin and did well at that.

He ran AEP Texas and had the largest rate increase that Central Southwest Operating companies had ever experienced in the State of Texas. Because before he did the rate case he met with everybody in the world that could have a meeting and explained to them exactly what they were doing, exactly why they were doing it. And it set a standard for how you do rate cases, already under way at the encouragement of the Governor of Virginia, doing the same thing. We've been out to every Kiwanis Club and every Chamber that you can talk to, trying to let them understand these are rate increases, most of them driven by environmental rules out of Washington which support the coal miners in the very region where we do business.



Oct. 19, 2010 / 12:00PM, AEP - American Electric Power Investor Meeting & Q3 2010 Earnings Results

Yes, we know you don't like rate increases, but they also have a lot to do with your jobs in these regions. And I think you'll see *some pressure come off of that, although will be a bit of political fodder as we go. That should allow for the returns on equity, Appalachian Power to get better in line.*

What you see at AEP consolidated for Bob's utility group is an overall 10% plus return on the overall consolidated equity invested in utilities. Some days some are plus double digits, some days single digits. As Stuart said, it took him three or four years to stair-step his up. SWEPCO has stair-stepped up from a number of cases that we've gone through. So any point in time at any operating company should not overwhelm you.

I think Nick made it when he said mention of it's the magnitude and the scale of AEP. I don't like customers switching in Ohio but a \$0.07 hit based on what we'll do with our own retail operation and other things that we'll do in 2011 as we look at the challenges in front of us. We can tolerate those kinds of things inside of the portfolio that we have. Yes, Greg? Do you want to help call some names?

Greg Gordon - Morgan Stanley - Analyst

Mike, Brian, I think the other -- other than the system agreement issue as a structural concern, I think the other big concern in '12 more than '11 as it pertains to your \$3.25 aspiration is how the ESP negotiation will unfold. And at a high level, investors look at where market prices for power are, they look at where your rates are. They see some of your customers switching. It sounds like you need rates to go up in Ohio, and yet it seems to me that the pressure would be down. So how do you homogenize your needs with sort of the minutia of how this process is going to go forward so that there is a mutually beneficial solution for customers?

Mike Morris - American Electric Power Co. - Chairman, President, CEO

So don't forget the major reason you see customer shifting is that the price to beat, if you will, is a G-rate price. So there's maybe some tightening in the G-rate that we'll see, but you can make capital investments in the Transco as Susan had already mentioned. And you can also see some serious capital that has been invested in AEP Ohio on the distribution side with the Smart Grid Program and others will continue to make those investments.

So going in with the belief that rates go down in the ESP to avoid shopping is probably a concept that won't materialize in what we file. And what we file will ultimately, I think, yield itself to a settlement over time. And so you won't see the same kinds of increases you may have seen in the last couple of years for that shopping piece on the G-rate. But you'll see some increases without question in the T and the D and other activities that go into an overall ESP filing. Up front here, Leslie, right here.

Unidentified Audience Member

Just a quick question to clarify your capital plan. You said you plan to access a billion dollars in the capital market. 670 of that is debt, the other --

Brian Tierney - American Electric Power Co. - EVP, CFO

No. No. Yes. Sorry, let me clarify. 620 is maturities, we're going to take advantage of some additional low rates that we have available to us today to have some incremental redemption, and then we're going to issue some new debt as well.

Unidentified Audience Member

Okay so it's all debt.



FINAL TRANSCRIPT

Thomson StreetEvents™

**AEP - American Electric Power Co Inc at Sanford C. Bernstein & Co.
Strategic Decisions Conference**

Event Date/Time: Jun. 01. 2011 / 12:00PM GMT



Jun. 01. 2011 / 12:00PM, AEP - American Electric Power Co Inc at Sanford C. Bernstein & Co. Strategic Decisions Conference

Does Ohio's regulatory structure provide AEP with the necessary assurance that they can recover the capital invested to comply with this obligation, while earning a fair return? Or is the capital invested by AEP in Ohio to provide generation service to its Ohio customers put at risk by those customers' right to choose a competing supplier whenever it is economically advantageous to do so?

Mike Morris - American Electric Power Company, Inc. - Chairman, CEO

Well, I did mention at the outside of some of the impacts of the discount on the share price in Ohio, because for years, I think all of us viewed Ohio as maybe one of the best regulatory states in the United States. All four utilities did well; Dayton Power & Light could have gone out of business, but the Commission chose not to have that happen.

FE was on one road; AEP and Duke Ohio were on a different road, and they accommodated all of that going forward. I think since the passage of Senate Bill 221, and now the change not only in the gubernatorial seat, but also the chair of the commission, Ohio is a bit of concern. And to your point, there is concern over the opportunity of customers to shop. We are seeing some of that; as you know, we reported that very transparently at the end of the first quarter, and we will continue to do that as we go.

Some of the downside of that is offset, however, by capacity payments we get from the marketplace itself, with off-system sales and other revenue generators. And some of the reclaimed market that we have had not only in our footprint, but in some other retail activities that we have had in Duke Ohio and Dayton Power & Light, and even FE service territory. So we continue to dampen the impact of that going forward.

But the regulatory structure in Ohio right now is uncertain. I think at the end of the day, it will sort itself out in a very logical and a reasonable way. Ohio is not a state where the government theory is to punish those doing business in the state. If anything, Governor Kasich stands for exactly the opposite, which is to see to it that we have the opportunity to grow in Ohio.

Going forward, anything is possible in a regulated environment. After being at that -- from the introduction you gave -- about 40 years of regulated businesses, there are frequently turns in the road. Frequently, they are short-lived, and that is good news when they are ugly. But it is a world that we are in.

And I think Ohio will continue to be of interest. It will sort itself out probably in the next 18 months, and we will have a pretty clear picture of what Ohio looks like, and investors can decide whether that is a good place to put money or not. I would argue that it will be.

Hugh Wynne - Sanford C. Bernstein - Analyst

Okay. I would like to delve into the specifics of that a little bit further. So in January, AEP filed with the Public Utility Commission of Ohio an electricity security plan to set provider of last resort rates for your two Ohio utilities, during the years from 2012 through 2014. That plan calls for customers to pay a non-bypassable charge to recover the cost of provider of last resort service, the cost of self-built generation, the cost of closing any generation-related facilities in Ohio.

But you mentioned the difficulties posed by the economic recession in the state by the new governor, the new head of the commission. And then more recently in April, we had this Supreme Court decision in respect of your prior electricity security plan, which covered '09 to '11, where the court ruled that there was no evidence to back the PUCO's decision to give you \$500 million in your rates to cover the cost of provider of last resort service.

How do you assess the outlook for the ESP? Is it subject to the risk of major modification by the commission? And if so, which changes do you think would put AEP most at risk over the next three years?



**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S RESPONSE TO
FIRSTENERGY SOLUTIONS
DISCOVERY REQUEST
CASE NO. 11-346-EL-SSO AND 11-348-EL-SSO
NINTH SET**

REQUEST FOR PRODUCTION OF DOCUMENTS

INT-9-002. Admit that Brian Tierney, as an Executive Vice President and Chief Financial Officer of American Electric Power, spoke during American Electric Power's January 28, 2011 fourth-quarter 2010 earnings call.

RESPONSE

That is correct.

Prepared By: Counsel

**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S RESPONSE TO
FIRSTENERGY SOLUTIONS
DISCOVERY REQUEST
CASE NO. 11-346-EL-SSO AND 11-348-EL-SSO
NINTH SET**

REQUEST FOR PRODUCTION OF DOCUMENTS

INT-9-003. Admit that on January 28, 2011, during American Electric Power's fourth-quarter 2010 earnings conference, Brian Tierney stated that "We have both competitive retail and regulatory responses to customers switching, and we'll continue both throughout the year "

RESPONSE

That is correct

Prepared By: Counsel

**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S RESPONSES TO
FIRSTENERGY SOLUTIONS CORPORATION'S
DISCOVERY REQUEST
CASE NOS. 11-346-EL-SSO AND 11-348-EL-SSO
SIXTH SET**

REQUESTS FOR ADMISSION

RPD-6-5: Admit that on January 28, 2011, during American Electric Power's fourth-quarter 2010 earnings conference, the Chairman and Chief Executive Officer of American Electric Power stated that "if in fact, the rate design activities that are filed in the ESP when we get to 2012, I think you will see a real drop-off in the number of shopping customers. They will still be there and still have the freedom to do that, but their economic advantage will be to stay on the AEP system as a retail customer."

ANSWER:

The Company admits that on January 28, 2011, Mike Morris, in response to a question posed by Bill Apicelli of Morgan Stanley, stated "if in fact, the rate design activities that are filed in the ESP when we get to 2012, I think you will see a real drop-off in the number of shopping customers. They will still be there and still have the freedom to do that, but their economic advantage will be to stay on the AEP system as a retail customer." The following quotes from the same January 28, 2011, earnings conference provide the background for the statement and the question that preceded the statement.

Mike Morris - American Electric Power - Chairman and CEO

"We have also included what we think is a very appropriate rate redesign issue. Like so many states before, there is, what we call in our vernacular, rate skewing. One of the costs to serve customers is not always the cost that's allocated to the customer class. Typically, residential have been given some relief in that regard. Industrial has also given some relief in that regard, and commercial customers paying more than the cost of service to serve them. We have tried to address that issue, particularly in the G rate and the rate designs that we put in place in ESP. We think that they very much mirror what one might see in the marketplace, and we think that that makes sense."

Bill Apicelli - Morgan Stanley - Analyst

"Okay, thank you. And then, on the shopping issue, between what you expect to have realized in 2010 and then your forecast of 14% in 2011, how much load would that leave at the C&I level that would have not been shopped, or what would the incremental exposure be I guess at year end 2011 based on your forecast?"

RFA-6-5 (CONTINUED)

Mike Morris - American Electric Power - Chairman and CEO

"Well, as Brian shared with you, it's an overall 6% of the AEP Ohio load. So it covers most of the class, but again, if in fact, the rate design activities that are filed in the ESP when we get to 2012, I think you will see a real drop-off in the number of shopping customers. They will still be there and still have the freedom to do that, but their economic advantage will be to stay on the AEP system as a retail customer."

Prepared By: Counsel

**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S RESPONSE TO
INDUSTRIAL ENERGY USERS-OHIO'S
DISCOVERY REQUEST
CASE NOS. 11-346-EL-SSO AND 11-348-EL-SSO
FIRST SET**

INTERROGATORY

INT-010. Has CSP or OP prepared any estimates of the annual revenues or rates to be collected for the Turning Point Solar Project?

RESPONSE

No.

**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S RESPONSE TO
INDUSTRIAL ENERGY USERS-OHIO'S
DISCOVERY REQUEST
CASE NOS. 11-346-EL-SSO AND 11-348-EL-SSO
FIRST SET**

INTERROGATORY

INT-016. Has CSP or OP prepared any estimates of the annual revenues or rates to be collected through the Generation Resource Rider in 2012, 2013, or 2014?

RESPONSE

The project that is currently anticipated to be recovered through rider GRR is the Turning Point project. See response to IEU INT-010.

**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S RESPONSE TO
INDUSTRIAL ENERGY USERS-OHIO'S
DISCOVERY REQUEST
CASE NOS. 11-346-EL-SSO AND 11-348-EL-SSO
FIRST SET**

INTERROGATORY

INT-022. Has CSP or OP prepared any estimates of the annual revenues or rates to be collected through the NERC Compliance Rider in 2012, 2013, or 2014?

RESPONSE

No such estimates have been prepared at this time.

**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S RESPONSES TO
FIRSTENERGY SOLUTIONS CORP.'S
DATA REQUEST
CASE NO. 11-346-EL-SSO AND 11-348-EL-SSO
FIRST SET**

INTERROGATORY

INT-001 What is Your estimate of the revenue that will be generated by each of the following provisions of the ESP in each year of the term of the ESP:

- a) The Fuel Adjustment Clause ("FAC");
- b) The Provider of Last Resort ("POLR") Rider;
- c) The Environmental Investment Carrying Cost Rider ("EICCR");
- d) The Carbon Capture and Sequestration Rider ("CCSR"); and, e) The Pool Termination and Modification Costs?

RESPONSE

- a See COMPETITIVELY SENSITIVE CONFIDENTIAL Attachment 1
- b. The requested data can be calculated by data provided by Company witness Roush's work papers.
- c) See AEM-1 attached to the testimony of Company witness Moore for 2012
- d) See Company witness Nelson's testimony at page 21 for the annual revenue requirement for the FEED study
- e) Pool Termination and Modification costs are not expected to occur during this ESP period

Prepared By: Philip J. Nelson

**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S RESPONSE TO
INDUSTRIAL ENERGY USERS-OHIO'S
DISCOVERY REQUEST
CASE NOS. 11-346-EL-SSO AND 11-348-EL-SSO
FIRST SET**

INTERROGATORY

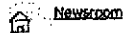
INT-025. Has CSP or OP prepared any estimates of the annual revenues or rates to be collected through the Facility Closure Cost Recovery Rider in 2012, 2013, or 2014?

RESPONSE

No such estimates have been prepared at this time.

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AEP Places Carbon Capture Commercialization On Hold, Citing Uncertain Status Of Climate Policy, Weak Economy

COLUMBUS, Ohio, July 14, 2011 – American Electric Power (NYSE: AEP) is terminating its cooperative agreement with the U.S. Department of Energy and placing its plans to advance carbon dioxide capture and storage (CCS) technology to commercial scale on hold, citing the current uncertain status of U.S. climate policy and the continued weak economy as contributors to the decision.

"We are placing the project on hold until economic and policy conditions create a viable path forward," said Michael G. Morris, AEP chairman and chief executive officer. "With the help of Alstom, the Department of Energy and other partners, we have advanced CCS technology more than any other power generator with our successful two-year project to validate the technology. But at this time it doesn't make economic sense to continue work on the commercial-scale CCS project beyond the current engineering phase.

"We are clearly in a classic 'which comes first?' situation," Morris said. "The commercialization of this technology is vital if owners of coal-fueled generation are to comply with potential future climate regulations without prematurely retiring efficient, cost-effective generating capacity. But as a regulated utility, it is impossible to gain regulatory approval to recover our share of the costs for validating and deploying the technology without federal requirements to reduce greenhouse gas emissions already in place. The uncertainty also makes it difficult to attract partners to help fund the industry's share."

In 2009, AEP was selected by the Department of Energy (DOE) to receive funding of up to \$334 million through the Clean Coal Power Initiative to pay part of the costs for installation of a commercial-scale CCS system at AEP's Mountaineer coal-fueled power plant in New Haven, W.Va. The system would capture at least 90 percent of the carbon dioxide (CO₂) from 235 megawatts of the plant's 1,300 megawatts of capacity. The captured CO₂, approximately 1.5 million metric tons per year, would be treated and compressed, then injected into suitable geologic formations for permanent storage approximately 1.5 miles below the surface.

Plans were for the project to be completed in four phases, with the system to begin commercial operation in 2015. AEP has informed the DOE that it will complete the first phase of the project (front-end engineering and design, development of an environmental impact statement and development of a detailed Phase II and Phase III schedule) but will not move to the second phase.

DOE's share of the cost for completion of the first phase is expected to be approximately \$18 million, half the expenses that qualify under the DOE agreement.

AEP and partner Alstom began operating a smaller-scale validation of the technology in October 2009 at the Mountaineer Plant, the first fully-integrated capture and storage facility in the world. That system captured up to 90 percent of the CO₂ from a slipstream of flue gas equivalent to 20 megawatts of generating capacity and injected it into suitable geologic formations for permanent storage approximately 1.5 miles below the surface. The validation project, which received no federal funds, was closed as planned in May after meeting project goals. Between October 2009 and May 2011, the life of the validation project, the CCS system operated more than 6,600 hours, captured more than 50,000 metric tons of CO₂ and permanently stored more than 37,000 metric tons of CO₂.

"The lessons we learned from the validation project were incorporated into the Phase I engineering for the commercial-scale project," Morris said.

American Electric Power is one of the largest electric utilities in the United States, delivering electricity to more than 5 million customers in 11 states. AEP ranks among the nation's largest generators of electricity, owning nearly 38,000 megawatts of generating capacity in the U.S. AEP also owns the nation's largest electricity transmission system, a nearly 39,000-mile network that includes more 765-kilovolt extra-high voltage transmission lines than all other U.S. transmission systems combined. AEP's transmission system directly or indirectly serves about 10 percent of the electricity demand in the Eastern Interconnection, the interconnected transmission system that covers 38 eastern and central U.S. states and eastern Canada, and approximately 11 percent of the electricity demand in ERCOT, the transmission system that covers much of Texas. AEP's utility units operate as AEP Ohio, AEP Texas, Appalachian Power (in Virginia and West Virginia), AEP Appalachian Power (in Tennessee), Indiana Michigan Power, Kentucky

Power, Public Service Company of Oklahoma, and Southwestern Electric Power Company (in Arkansas, Louisiana and east Texas). AEP's headquarters are in Columbus, Ohio.

This report made by American Electric Power and its Registrant Subsidiaries contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Although AEP and each of its Registrant Subsidiaries believe that their expectations are based on reasonable assumptions, any such statements may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. Among the factors that could cause actual results to differ materially from those in the forward-looking statements are: the economic climate and growth in, or contraction within, AEP's service territory and changes in market demand and demographic patterns; inflationary or deflationary interest rate trends; volatility in the financial markets, particularly developments affecting the availability of capital on reasonable terms and developments impeding AEP's ability to finance new capital projects and refinance existing debt at attractive rates; the availability and cost of funds to finance working capital and capital needs, particularly during periods when the time lag between incurring costs and recovery is long and the costs are material; electric load and customer growth; weather conditions, including storms, and AEP's ability to recover significant storm restoration costs through applicable rate mechanisms; available sources and costs of, and transportation for, fuels and the creditworthiness and performance of fuel suppliers and transporters; availability of necessary generating capacity and the performance of AEP's generating plants; AEP's ability to recover Indiana Michigan Power's Donald C. Cook Nuclear Plant Unit 1 restoration costs through warranty, insurance and the regulatory process; AEP's ability to recover regulatory assets and stranded costs in connection with deregulation; AEP's ability to recover increases in fuel and other energy costs through regulated or competitive electric rates; AEP's ability to build or acquire generating capacity, including the Turk Plant, and transmission line facilities (including the ability to obtain any necessary regulatory approvals and permits) when needed at acceptable prices and terms and to recover those costs (including the costs of projects that are cancelled) through applicable rate cases or competitive rates; new legislation, litigation and government regulation, including requirements for reduced emissions of sulfur, nitrogen, mercury, carbon, soot or particulate matter and other substances or additional regulation of fly ash and similar combustion products that could impact the continued operation and cost recovery of AEP's plants; timing and resolution of pending and future rate cases, negotiations and other regulatory decisions (including rate or other recovery of new investments in generation, distribution and transmission service and environmental compliance); resolution of litigation (including AEP's dispute with Bank of America); AEP's ability to constrain operation and maintenance costs; AEP's ability to develop and execute a strategy based on a view regarding prices of electricity, natural gas and other energy-related commodities; changes in the creditworthiness of the counterparties with whom AEP has contractual arrangements, including participants in the energy trading market; actions of rating agencies, including changes in the ratings of debt; volatility and changes in markets for electricity, natural gas, coal, nuclear fuel and other energy-related commodities; changes in utility regulation, including the implementation of electric security plans and related regulation in Ohio and the allocation of costs within regional transmission organizations, including PJM and SPP; accounting pronouncements periodically issued by accounting standard-setting bodies; the impact of volatility in the capital markets on the value of the investments held by AEP's pension, other postretirement benefit plans and nuclear decommissioning trust and the impact on future funding requirements; prices and demand for power that AEP generates and sells at wholesale; changes in technology, particularly with respect to new, developing or alternative sources of generation; and other risks and unforeseen events, including wars, the effects of terrorism (including increased security costs), embargoes and other catastrophic events.

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**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S RESPONSE TO
PUBLIC UTILITIES COMMISSION OF OHIO'S
DATA REQUEST
CASE NO. 11-346-EL-SSO AND 11-348-EL-SSO
EIGHTEENTH SET**

INTERROGATORY

INT-01. The following questions pertain to the Company's discussion of Ohio's allocation of the CCS FEED study, as addressed in the testimony of Mr. Nelson (p. 20). Indicate if you deem any of the information if your responses to be confidential.

(Excerpt from Phil's Testimony)

How was the Ohio Allocation for this study calculated?

The allocation to AEP Ohio is based on the ratio of AEP Ohio's megawatts of coal-fired capacity to the total coal-fired capacity of the AEP system for the coal units that are able to be retrofit with this technology and are fully controlled, or are scheduled to be fully controlled with SCR and FGD technology

What is the total expected cost of the commercial scale CCS Project and what is AEP Ohio's share?

The total cost for the CCS project is not known at this time and the FEED study will provide a detailed estimate. However, preliminary estimates for the total capital project cost would be about \$610 million with an estimated in-service date of 2015. There is an estimated annual O&M requirement of approximately \$58 million beginning with the in-service date. Applying the same ratios as applied to the FEED Study cost produces an AEP Ohio revenue requirement of approximately \$46 million. The Company is requesting that the CCSR be nonbypassable. The table below shows the calculations just described

QUESTIONS - REQUIRING RESPONSES

A) Provide criteria used to determine if an AEP coal-fired unit is able to be retrofit with this capture technology.

B) Provide a list of all AEP coal-fired units and all AEP Ohio coal-fired units that are able to be retrofit with this capture technology and are fully controlled, or are scheduled to be fully controlled with SCR and FGD technology.

INT-01 (CONTINUED)

- C) What is the area requirement for the this capture technology?
- D) How many years of operation would justify the use of this capture technology?

RESPONSE

The Ohio Companies' allocation factor of 46.5% in the table on page 21 of witness Nelson's testimony inadvertently excluded the capacity of AEP Generating Co. (with ownership and entitlement shared by Indiana Michigan Power and Kentucky Power Companies) that would be considered capable of receiving a CCS retrofit. Including this capacity lowers the Ohio Companies' allocation factor to 43.4%. This revised factor should be replaced in the workpaper in Volume 5 of the proposed ESP filing and in the table on page 21 of witness Nelson's testimony.

A) The criteria used to determine if an AEP coal-fired unit is capable of having carbon capture technology retrofit is whether flue gas desulfurization (FGD) and selective catalytic reduction (SCR) technologies have been installed or are planned to be installed. Units controlled for SO₂ and NO_x (primarily NO₂) are better candidates for CCS technology because of competing reactions that take place between these compounds and the specific chemical reagent (ammonia, advanced amines, etc.), limiting the reagent's ability to react with CO₂. Depending on the technology selected (chilled ammonia or advanced amines), higher SO₂ and NO_x concentrations in the incoming flue gas can have considerable impacts on the process, leading to higher reagent consumption, increased CCS equipment sizing, and increased waste/by-product generation by the capture system.

Thus, on an uncontrolled unit, the resulting increased reagent consumption and associated impacts could shift the economics of the system to the point that CCS on that unit may no longer be feasible. There really are no minimum emissions criteria for CCS, but as described above the concentrations of SO₂ and NO_x in the flue gas have a significant impact on the system design and economics. FGD systems for SO₂ control are advantageous for both chilled ammonia and advanced amine technologies, while the advanced amine technologies also perform better with an upstream SCR for NO_x control. Finally, both chilled ammonia and advanced amine technologies require low inlet flue gas temperatures for optimum CO₂ capture. Upstream SO₂ controls (FGD) remove the constituents that inhibit the capture process, and lower the incoming flue gas temperature to the capture system. Thus, units that have FGD systems in place are favorable retrofit candidates.

B) A list of all AEP coal-fired units and all AEP Ohio coal-fired units that are able to be retrofit with this capture technology and are fully controlled, or are scheduled to be fully controlled with SCR and FGD technology is provided in Staff 18-1 Attachment 1.

C) The area requirement for carbon capture technology is dependent upon the amount of flue gas treated and the individual design of each retrofit. Using Alstom's chilled ammonia technology as a basis, the product validation facility (PVF) at AEP's Mountaineer Plant (capture portion only), and the front end engineering and design completed so far for the Mountaineer commercial-scale facility (capture portion only) are approximately 3,000 - 3,500 sq. ft. per MW. This includes the

INT-01 (CONTINUED)

major process islands and auxiliary equipment (refrigeration systems, cooling tower, electrical bldg., etc).

D) The economic justification of using capture technology is specific to each retrofit and the assumptions used within each individual analysis. At this time any economic analysis will be less robust than when the cost of not retrofitting CCS can be quantified (i.e. value of CO2 emission credits)

**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S RESPONSES TO
FIRSTENERGY SOLUTIONS CORP.'S
DATA REQUEST
CASE NO. 11-346-EL-SSO AND 11-348-EL-SSO
FIRST SET**

INTERROGATORY

INT-041 Referring to pages 18-21 in Mr. Nelson's testimony,

- (a) Is the CCSR limited to "AEP Ohio's share" of the Phase I Front-End Engineering and Design study, or could other costs be recovered under the CCSR rider during the term of this ESP?
- (b) If other costs be recovered under the CCSR, what other costs would be recovered through the CCSR during the term of this ESP?

RESPONSE

- (a) During the term of the proposed ESP, the Company is requesting that it be permitted to recover AEP Ohio's share of the Phase I FEED study. If AEP decides to go forward with the Commercial-Scale CCS facility based on the conclusions of the FEED study, the Company will make a separate filing asking the Public Utilities Commission of Ohio for *recovery of the Ohio Companies revenue requirement associated with the project.*
- (b) Other costs associated with the Commercial-Scale CCS that could be recovered under the CCSR during the term of the proposed ESP would be those incurred due to AEP's decision to continue with engineering, procurement, and construction of the facility

Prepared By: Philip J. Nelson

**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S RESPONSE TO
INDUSTRIAL ENERGY USERS-OHIO'S
DISCOVERY REQUEST
CASE NOS. 11-346-EL-SSO AND 11-348-EL-SSO
FIRST SET**

INTERROGATORY

INT-034. Besides the riders listed in Interrogatories Nos. 13-33, are there any riders in the ESP filing that CSP or OP has not provided the annual revenues or rates to be recovered in 2012, 2013, or 2014? If the answer is yes, please identify those riders.

RESPONSE

Yes, the Carbon Capture and Sequestration Rider.