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FILE

EXHIBIT NO. ______

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the 2010 Annual Filing of Columbus Southern Power Company and Ohio Power Company Required by Rule 4901:1-35-10, Ohio Administrative Code.	)))))	Case No. 11-4571-EL-UNC Case No. 11-4572-EL-UNC

DIRECT TESTIMONY OF
THOMAS E. MITCHELL
ON BEHALF OF
COLUMBUS SOUTHERN POWER COMPANY
AND
OHIO POWER COMPANY

Filed: July 29, 2011

INDEX TO DIRECT TESTIMONY OF
THOMAS E. MITCHELL

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
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ON BEHALF OF
COLUMBUS SOUTHERN POWER COMPANY
AND
OHIO POWER COMPANY

PERSONAL BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas E. Mitchell and my business address is 1 Riverside Plaza Columbus, Ohio 43215.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of Columbus Southern Power Company (CSP) and Ohio Power Company (OPCo) or collectively AEP Ohio or the Companies.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by American Electric Power Service Corporation (AEPSC), a subsidiary of American Electric Power Company, Inc. (AEP), as Managing Director of Regulatory Accounting Services. AEP is the parent company of CSP and OPCo.

Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR OF REGULATORY ACCOUNTING SERVICES?

A. My primary responsibilities include providing the AEP System operating subsidiaries, including CSP and OPCo, with accounting support for regulatory filings. This support includes the preparation of cost-of-service adjustments, accounting schedules, and accounting testimony. I direct a group of professionals who provide accounting expertise, compile necessary historical accounting schedules, present expert accounting testimony and respond to data requests in connection with rate filings with eleven state regulatory commissions and the Federal Energy Regulatory Commission (FERC).

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Science Degree in Accounting from Virginia Polytechnic Institute and State University (Virginia Tech) in 1977. I also hold a Master of Business Administration Degree from Virginia Tech and a Bachelor of Arts Degree in Government from the University of Notre Dame. I have been a Certified Public Accountant since 1978. I was first employed by Appalachian Power Company (APCo) in 1979, an affiliated operating company of CSP and OPCo and, except for employment with Norfolk Southern Corporation as an Assistant Accounting Manager (1984-1985), have held various positions in the Accounting Department continuously since that date. In 1998, I was promoted to Director, Accounting Policy & Research and in 2008, I was promoted to my present position as Managing Director of Regulatory Accounting Services. I have served as Chairman of the Accounting Standards Committee of the Edison Electric Institute (EEI) and am currently Chairman of the Joint Accounting Liaison Committee of the EEI which meets annually with the FERC Accounting Staff to discuss accounting issues of mutual interest to EEI and the FERC.

Q. HAVE YOU PREVIOUSLY TESTIFIED OR SUBMITTED TESTIMONY IN ANY REGULATORY PROCEEDINGS?

A. Yes, I recently submitted prefiled testimony on behalf of CSP and OPCo before the Public Utilities Commission of Ohio (PUCO or the Commission) in the 2012 - May

2014 (2012 - 2014) Electric Security Plan (ESP) proceedings, Case No. 11-349-EL-AAM and Case No. 11-350-EL-AAM, and the Companies' distribution base rate case in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR as well as filed rebuttal testimony in the Ohio Remand Case No. 08-917-EL-SSO and Case No. 08-918-EL-SSO. I also testified before the PUCO on behalf of CSP and OPCo regarding the 2009 Significantly Excessive Earnings Test (SEET) proceedings, Case No. 10-1261-EL-UNC. In addition, I have filed accounting testimony and testified on behalf of APCo and Wheeling Power Company before the Public Service Commission of West Virginia, and on behalf of APCo before both the Virginia State Corporation Commission and the FERC. I have also filed accounting testimony on behalf of Indiana Michigan Power Company before the Indiana Utility Regulatory Commission.

PURPOSE OF TESTIMONY

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

A. My testimony addresses two primary areas. My testimony first describes the method I used for calculating the Companies' earned return on common equity (ROE) including adjustments to exclude Off-System Sales (OSS) net margins, non-recurring items and special items. No adjustments were made to remove extraordinary items for 2010 because there were no such items recorded. I then calculated the earned ROE for CSP and OPCo for the year ended December 31, 2010 and provided my calculations to AEP Ohio witness Hamrock.

The second purpose of my testimony is to quantify those provisions of AEP

Ohio's ESP that AEP Ohio witness Hamrock has identified as directly producing earnings which serve as a cap to ESP amounts that could be subject to be returned to customers in the event it is determined that CSP had excessive earnings in 2010. I did not calculate the amount of earnings such provisions produced for OPCo during 2010 because OPCo's ROE for 2010 falls within the "safe harbor" limit as discussed by AEP Ohio witness Hamrock.

EXHIBITS

Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?

A. Yes, I am sponsoring 5 exhibits identified as follows including 2010 data for AEP Ohio:

- Exhibit TEM-1: Earned ROE

For CSP only:

- Exhibit TEM-2: Equity Return on Incremental 2001-2008 Environmental Investments and on Incremental 2009 Environmental Investments
- Exhibit TEM-3: Equity Return on Enhanced Vegetation Management Investments
- Exhibit TEM-4: Equity Return on gridSMART Investments
- Exhibit TEM-5: Net Incremental Provider of Last Resort Revenues

Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR SUPERVISION AND DIRECTION?

A. Yes.

RETURN ON EQUITY (ROE)

Q. PLEASE DESCRIBE THE METHOD YOU USED TO CALCULATE THE ROES FOR CSP AND OPCO AS SHOWN IN EXHIBIT TEM-1.

A. The calculation of the ROEs was performed in two steps. I first calculated the respective per books (unadjusted) 2010 ROE (refer to Exhibit TEM-1) for both CSP and OPCo using the amounts for 2010 net earnings available to common shareholders compared to the average of the beginning and ending equity for the year ended December 31, 2010. The use of average equity was determined by the PUCO to be appropriate in Case No. 09-786-EL-UNC by its Entry on Rehearing dated August 25, 2010, page 6, and is consistent with the calculation of the average equity for the comparable group.

Q. WHAT WAS THE SECOND STEP FOR YOUR DETERMINATION OF THE APPROPRIATE ROES?

A. In accordance with the PUCO order in Case No. 10-1261-EL-UNC, (2009 SEET review) I made adjustments (after federal and state income tax) to remove the OSS net margins, as well as non-recurring and special items from the net earnings available to common shareholders (or numerator) and common shareholder equity (or denominator). For 2010, there were no minority interest or extraordinary items.

Q. WHAT ARE THE RESULTS OF THE TWO STEPS OF THE CALCULATION OF THE ROES?

A. The results are summarized as follows:

Step	CSP	OPCo
Step 1: Per Books ROE	16.17%	9.70%
Step 2: Adjusted SEET ROE	17.40%	9.84%

Q. DID YOU PROVIDE YOUR CALCULATIONS OF THE 2010 ROE FOR CSP AND OPCO TO AEP OHIO WITNESS HAMROCK?

A. Yes.

Q. PLEASE DESCRIBE HOW THE COMPANIES MADE ADJUSTMENTS TO THE NUMERATOR.

A. CSP and OPCo took the net amount of all the adjustments as shown on page 1 of Exhibit TEM-1 for the twelve months ended December 31, 2010 and removed their impact on earnings for purposes of the 2010 SEET review. The amounts derived for each of these adjustments are shown on page 2 of Exhibit TEM-1 and are discussed later in my testimony.

Q. IN THE 2009 SEET PROCEEDING, THE COMPANY DID NOT MAKE ADJUSTMENTS TO THE DENOMINATOR. HAVE THE COMPANIES USED THE SAME APPROACH FOR THIS CASE?

A. No. The Commission directed, in the 2009 SEET review, that adjustments made to the numerator should also have related adjustments in the denominator.

Q. HOW DID THE COMPANY MAKE ADJUSTMENTS TO THE DENOMINATOR?

A. For all adjustments except OSS net margins, CSP and OPCo used the same after tax amount calculated for the numerator to adjust the denominator.

Q. HOW HAVE CSP AND OPCO PROPOSED TO ADJUST THE DENOMINATOR FOR OSS NET MARGINS IN THE 2010 SEET REVIEW?

A. CSP and OPCo have compared the Megawatt hours (MWh) sold for OSS to the MWh generated by those plants as shown on page 5 of Exhibit TEM-1. This MWh ratio was then multiplied by the amount of equity related to generation plant net book value (NBV) as shown on page 4 of Exhibit TEM-1.

Q. IS THE APPROACH THE SAME METHOD EMPLOYED IN THE PREVIOUS 2009 SEET REVIEW?

A. No. The method proposed by CSP and OPCo is more directly related to OSS net margins because it uses the actual output of OSS MWh to ratio the amount of equity related to generation plant NBV. The method proposed by the Commission Staff and approved by the Commission in the previous SEET case used total sales for resale as a percentage of total sales to ratio the equity related to generation plant NBV. However, the total sales for resale includes affiliated sales for resale and Transmission Cost Recovery Rider (TCRR) transactions that are not related to OSS net margins and distorts the allocation, particularly for OPCo.

Q. WHAT WAS THE RESULT OF THE COMPANIES' CALCULATION OF THE OSS NET MARGIN ADJUSTMENT TO EQUITY (DENOMINATOR) USING THE MWH METHOD DISCUSSED ABOVE?

A. CSP and OPCo's adjustments to equity are a reduction of $114.003 million and $196.882 million, respectively as shown on page 4 of Exhibit TEM-1.

Q. PLEASE DESCRIBE THE NON-RECURRING ORGANIZATIONAL

RESTRUCTURING CHARGES ADJUSTMENT?

A. In April 2010, AEP announced an initiative to achieve workforce reductions through an organizational restructuring program. The total cost of this program recorded in 2010 for CSP and OPCo was $32.402 million and $56.610 million pre-tax, respectively. The after-tax amounts of $20.809 million and $36.055 million for CSP and OPCo, respectively have been added back to the net earnings available for common shareholders and common shareholder equity which is used in the calculation of average equity.

Q. CAN YOU DESCRIBE WHAT THE COMPANY REQUESTED RELATED TO THE ORGANIZATIONAL RESTRUCTURING PROGRAM IN THE RECENTLY FILED DISTRIBUTION BASE RATE CASE IN CASE NO. 11-351-EL-AIR AND CASE NO. 11-352-EL-AIR?

A. Yes. The Company requested the deferral (pre-tax) of $17.865 million and $15.953 million for CSP and OPCo, respectively related to the cost of the program for the distribution function. The Company proposed that the deferral be recovered and amortized over three years.

Q. HOW IS THE COMPANY PROPOSING THIS REQUESTED DEFERRAL IMPACT THE SEET PROCEEDING?

A. If the Commission approves the distribution deferral and recovery, the approved amount deferred should be treated in the same fashion as the non-recurring expenses in the 2010 SEET review. The income from the deferral of these costs should be a deduction for purposes of calculating SEET earnings in the period that the deferral is recorded since the organizational restructuring expenses are added back for purposes of calculating the 2010 SEET earnings. To do otherwise would provide inconsistent treatment of the expense and subsequent deferral of the expense of the organizational restructuring program. If approved, subsequent recovery in distribution revenues and related amortization expense will produce a zero net effect on earnings.

Q. PLEASE DESCRIBE THE NON-RECURRING MEDICARE PART D SUBSIDY CHANGE ADJUSTMENT.

A. As discussed in the Companies 2010 10-K, the Patient Protection and Affordable Care Act and the related Health Care and Education Reconciliation Act (Health Care Acts) were enacted in March 2010. The Health Care Acts amend tax rules so that the portion of employer health care costs that are reimbursed by the Medicare Part D prescription drug subsidy will no longer be deductible by the employer for federal income tax purposes effective for years beginning after December 31, 2012. Because of the loss of the future tax deduction, CSP and OPCo recorded expense (pre-tax) of $1.416 million and $4.365 million, respectively in 2010. The respective after tax amounts of $0.9 million and $2.780 million have been added back to net earnings available for common shareholders and common shareholder equity for purposes of the 2010 SEET review.

Q. PLEASE DESCRIBE THE SPECIAL ADJUSTMENT FOR THE 2009 SEET.

A. The special adjustment for the 2009 SEET gives effect to the PUCO's order in Case No. 10-1261-EL-UNC related to the 2009 SEET review, where CSP was determined to have 2009 earnings subject to be returned under the SEET of $42.683 million.

Q. SPECIFICALLY, WHAT DID THE PUCO STATE IN ITS 2009 SEET REVIEW ORDER THAT ADDRESSED HOW THE $42.683 MILLION

RELATED TO 2009 SHOULD BE TREATED FOR PURPOSES OF A SEET REVIEW?

A. The PUCO stated on page 35 of its 2009 SEET order that:

> The Commission directs CSP to apply the significantly excessive earnings, as determined in this Opinion and Order, first to any deferrals in the FAC account on CSP's books as of the date of this order, with any remaining balance to be credited to CSP's customers on a per kilowatt hour basis beginning with the first billing cycle in February 2011 and coinciding with the end of the current ESP period. Additionally, the Commission finds that any balance credited to CSP's customers will not be deducted from the Company's earnings for purposes of the 2011 SEET review.

Q. IS THE PUCO'S TREATMENT OF THE $42.683 MILLION CONSISTENT WITH ITS ORDER IN CASE NO. 09-786-EL-UNC?

A. Yes. In that order, on page 15, the PUCO stated that "Finally, we also agree, as Customer Parties emphasize, that any adjustment to the earnings of an electric utility, as a result of a refund, should be excluded from the SEET calculation in the year the adjustment is made to avoid distorting the electric utility's income."

Q. HOW MUCH OF CSP'S 2009 EARNINGS SUBJECT TO RETURN OF $42.683 MILLION WAS APPLIED TO RECOVER ITS DEFERRED FUEL AND HOW MUCH WAS REFUNDED TO CUSTOMERS?

A. Approximately $18.718 million was applied to recover deferred fuel amounts and approximately $23.965 million is being refunded to customers over the periods February through December 2011.

Q. WHY, AS SHOWN ON PAGE 2 OF EXHIBIT TEM-1, DID YOU GIVE EFFECT IN 2010 TO THE $42.683 MILLION RELATED TO THE 2009 SEET REVIEW?

A. CSP provided for the $42.683 million (pre-tax), which reduced the 2010 per books earnings. The Commission order in Case No. 10-1261-EL-UNC specified that any balance credited to customers would not be deducted from the Company's earnings for purposes of the 2011 SEET review. Accordingly, I added back $27.411 million (after-tax) to adjust out this effect from 2010 SEET earnings to comply with the intent of the Commission order discussed above.

ESP RATE ADJUSTMENTS THAT COULD BE RETURNED TO CUSTOMERS IF EARNINGS ARE FOUND TO BE SIGNIFICANTLY EXCESSIVE

Q. DID YOU QUANTIFY THE 2010 VALUES FOR THE FIVE ITEMS WHICH AEP OHIO WITNESS HAMROCK IDENTIFIED AS COMPONENTS OF THE ESP RATE INCREASE THAT WERE PAID BY RATEPAYERS AND INCREASED CSP'S EARNINGS AND SERVE AS A CAP TO ESP AMOUNTS THAT COULD BE SUBJECT TO BE RETURNED TO CUSTOMERS?

A. Yes. Please refer to the following summary table for these five items for CSP, which presents the respective items for 2010 on an after-tax basis in order to determine the effect on net earnings realized by the CSP. OPCo is excluded from this analysis because its ROE for 2010 falls within the "safe harbor" limit. The five items listed in the table below are supported by Exhibits TEM-2 through Exhibit TEM-5:

ELIGIBLE COMPONENTS	EXHIBIT	Pre-Tax (000's)	After-Tax (000's)
Equity Return on Incremental 2001-2008	TEM-2	$14,041	$9,017
Environmental Investments on Incremental 2009 Environmental Investments	TEM-2	3,632	2,332
Equity Return on Enhanced Vegetation Management Investments	TEM-3	163	105
Equity Return on gridSMART Investments	TEM-4	1,225	787
Net Incremental Provider of Last Resort Revenues	TEM-5	74,874	48,084
TOTAL		**$93,935**	**$60,325**

Q. CAN YOU EXPLAIN WHY THESE FIVE ESP RATE ADJUSTMENTS INCREASED EARNINGS, WHILE OTHER ESP RATE ADJUSTMENTS PAID BY RATEPAYERS DID NOT?

A. Yes, the five ESP rate adjustments which I calculated in Exhibits TEM-2 through Exhibit TEM-5 directly affected earnings. The other elements of the ESP rate adjustments did not contribute to earnings as CSP and OPCo employ over/under regulatory accounting to ensure earnings neutrality. These excluded rate adjustments provided revenue to recover incurred costs including fuel and the non-equity components of the carrying costs on incremental 2001-2008 environmental investments and on incremental 2009 environmental investments and the ESP riders including Enhanced Vegetation Management and gridSMART. As explained below, the non-equity components of these riders provide for recovery of incurred costs including the cost of debt, depreciation, operation and maintenance expenses, federal income taxes, property taxes and general and administrative expenses.

Q. WHAT METHODOLOGY DID YOU USE TO DETERMINE THE EQUITY RETURN ON INCREMENTAL 2001-2008 ENVIRONMENTAL INVESTMENTS SHOWN IN EXHIBIT TEM-2?

A. The equity return (as a part of an overall carrying cost) on incremental 2001-2008 environmental investments (environmental investments) was approved in AEP Ohio's ESP (see Case No. 08-917-EL-SSO and Case No. 08-918-EL-SSO Entry on Rehearing Order dated July 23, 2010, "ESP Entry on Rehearing", pages 10-13 and related Opinion and Order dated March 18, 2010, "ESP Order", pages 24-28) and was included in the overall generation rate instead of as a separate rider. The total carrying cost rate of 14.94% for CSP on these environmental investments included a debt and equity return, as well as recovery of other carrying costs including depreciation, federal income taxes, property taxes and general and administrative expenses and affected the base generation rate (excluding FAC). The first step I performed in order to calculate the amount of the total carrying costs on environmental investments paid by ratepayers in 2010 was to identify the total base generation revenues for the twelve months ended December 31, 2010 from the customer billing system which was approximately $434 million for CSP. Next, I calculated the portion of the total base generation revenues applicable to these total carrying costs on environmental investments using the ESP-approved percentage increases for carrying cost on environmental investments of 6.29% for CSP. I divided the total base generation revenue by 106.29% for CSP to determine the base revenues before the ESP increase. The difference in revenue is attributable to the total carrying costs on the environmental investments as approved in the ESP and results in approximately $25.7 million for CSP. This difference is then multiplied by the ratio of the after-tax weighted average equity approved return rate (5.25%) compared to the total approved carrying charge rate (14.94%) in order to determine the portion of the ESP environmental-related earnings attributable to the approved after-tax equity return ($9 million for CSP). Finally, the environmental-related after-tax earnings attributable to the approved equity return were divided by one minus the effective tax rate (1 - 35.78%) to calculate the before-tax equity return on environmental investments of $14 million for CSP as shown on Exhibit TEM-2.

Q. WHAT METHODOLOGY DID YOU USE TO DETERMINE THE EQUITY RETURN ON INCREMENTAL 2009 ENVIRONMENTAL INVESTMENTS SHOWN IN EXHIBIT TEM-2?

A. The equity return (as a part of an overall carrying cost) on incremental 2009 environmental investments was approved in AEP Ohio's ESP (see Case No. 08-917-EL-SSO and related Opinion and Order dated March 18, 2010, "ESP Order", page 30) and was included in a separate rider. The total carrying cost rate of 13.59% for CSP on these environmental investments included a debt and equity return, as well as recovery of other carrying costs including depreciation, federal income taxes, property taxes and general and administrative expenses. I first obtained the total revenues recorded under the Environmental Investment Carrying Cost rider ($6.037 million for CSP). Next, similar to the calculation made for the after-tax earnings equity portion of the total carrying costs on 2001-2008 environmental investments, I pro-rated the after-tax earnings equity portion of the total carrying cost, approximately $2.332 million for CSP. Finally, the after-tax earnings attributable to the approved equity return was divided by one minus the effective tax rate (1 - 35.78%) to calculate the before-tax equity return on 2009 environmental investments of $3.632 million for CSP. These calculations are shown in Exhibit TEM-2.

Q. WHAT METHODOLOGY DID YOU USE TO DETERMINE THE EQUITY RETURN ON ENHANCED VEGETATION MANAGEMENT INVESTMENTS SHOWN IN EXHIBIT TEM-3?

A. The equity return (as a part of an overall carrying cost) on enhanced vegetation management investments was approved in AEP Ohio's ESP proceeding (ESP Entry on Rehearing, pages 14-18 and ESP Order at pages 30-34) and was included in the ESRP separate rider. The enhanced vegetation management rider included recovery of operations and maintenance expenses, as well as a total carrying cost rate on these enhanced vegetation management investments. The total carrying cost rate is composed of a debt and equity return, as well as recovery of other carrying costs including depreciation, federal income taxes, property taxes and general and administrative expenses. The methodology I used to calculate the equity portion of the total carrying costs included in the ESRP rider paid by ratepayers in 2010 and shown on Exhibit TEM-3, was similar to that previously described related to the total carrying costs on environmental investments and included first identifying the total revenues recorded under the ESRP rider ($10.1 million for CSP). Next, I calculated the amount of the carrying costs on eligible enhanced vegetation management investments included in these ESRP revenues by pro-rating the percentage of total carrying costs designed in the tariff for these capital investments to the total estimated tariff revenue. The pro-rated amounts were based on the 1.32% carrying cost capital investment ratio from the prior year and the new capital investment ratio of 5.95% based on rates effective in September 2010 approved by the Commission in Case No. 10-163-EL-RDR. The calculation of 5.95% carrying cost is shown on Exhibit TEM-3. The result was approximately $0.3 million for CSP. Next, similar to the calculation made for the after-tax earnings equity portion of the total carrying costs on environmental investments, I pro-rated the after-tax earnings equity portion of the total carrying cost, approximately $105 thousand for CSP. Finally, the after-tax earnings attributable to the approved equity return was divided by one minus the effective tax rate (1 - 35.78%) to calculate the before-tax equity return on enhanced vegetation management investments of $163 thousand for CSP. These calculations are shown in Exhibit TEM-3.

Q. WHAT METHODOLOGY DID YOU USE TO DETERMINE THE EQUITY RETURN ON GRIDSMART INVESTMENTS SHOWN IN EXHIBIT TEM-4?

A. I used a similar methodology as I used in the determination of the equity return on the three previous equity cost determinations. The equity return (as a part of an overall carrying cost) on gridSMART was approved in AEP Ohio's ESP proceeding (ESP Entry on Rehearing, pages 18-24 and ESP Order at page 34-38) and was included in the gridSMART rider. The gridSMART rider included recovery of operations and maintenance expenses, as well as a total carrying cost rate on the gridSMART investments. The total carrying cost rate is composed of debt and equity, as well as recovery of other carrying costs including depreciation, federal income taxes, property taxes and general and administrative expenses. To calculate the equity portion of the total carrying costs included in the gridSMART rider paid by ratepayers in 2010 I first identifying the total revenues recorded under the gridSMART rider ($8.0 million for CSP). Next, I calculated the amount of the carrying costs on gridSMART investments included in these gridSMART revenues (approximately $3.9 million) by pro-rating the percentage of total carrying costs designed in the tariff for these investments to the total estimated tariff revenue. The pro-rated amounts were based on the O&M and carrying cost split from the prior year and the new ratio based on rates put in place in September 2010 approved by the Commission in Case No. 10-164-EL-RDR. The calculation of 40% O&M and 60% carrying cost is shown on Exhibit TEM-4. Finally, I similarly pro-rated the after-tax equity portion of the total carrying cost to determine the after-tax equity portion of approximately $0.8 million ($1.2 million before tax). This pro-ration considered that the 5.25% equity rate should be compared to the average total carrying cost rate of approximately 25.23% for the varying property lives which results in 19.98% of the carrying cost attributable to equity. My calculations are shown on Exhibit TEM-4.

Q. WHAT METHODOLOGY DID YOU USE TO DETERMINE THE NET INCREMENTAL PROVIDER OF LAST RESORT (POLR) REVENUES SHOWN IN EXHIBIT TEM-5?

A. POLR revenues were approved in AEP Ohio's ESP proceeding (ESP Entry on Rehearing, pages 24-27 and ESP Order at pages 38-40) and was included in the nonbypassable POLR separate rider. Using this separate rider, I was able to identify the POLR revenues for the twelve months ended December 31, 2010 of approximately $94.6 million for CSP. I next had to determine the ESP portion of the total POLR revenues, as the approved rider for CSP also included a pre-ESP

POLR component of $13.6 million for CSP. The incremental increase in the POLR was $81 million for CSP due to the ESP. Finally, an additional reduction of $6.2 million for CSP should be made for the POLR offset to the Economic Development Rider in accordance with PUCO Finding and Order in Case No. 09-1095-EL-RDR dated January 7, 2010 ("EDR Order") pages 10 and 11 to recognize that POLR applicable to Ormet and Eramet can not be recovered in the EDR tariff as ordered by the PUCO. In summary the net incremental POLR of $74.9 million ($48.1 million after-tax) for CSP is the appropriate amount, as shown in Exhibit TEM-5.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Columbus Southern Power Company and Ohio Power Company
Annual SEET Filing
Earned ROE
For the 12 Months Ended December 31, 2010

Step 1 Per Books ROE

Description		CSP (000's)			OPCo (000's)			AEP Ohio (000's)
Earnings Attributable to Common Stock	$	230,074		$	310,661		$	540,735
12 Month Average Total Common Shareholder's Equity	$	1,423,025	(A)	$	3,201,560	(A)	$	4,624,585
Return on Equity (%)		16.17%			9.70%			11.69%

Step 2 Per Books ROE Calculation - Excluding Off-System Sales Net Margins and Other Adjustments

Description		CSP (000's)			OPCo (000's)			AEP Ohio (000's)
Earnings Attributable to Common Stock	$	230,074		$	310,661		$	540,735
Less: OSS Net Margins and Other Adjustments After-Tax	$	1,905	(B)	$	(12,947)	(B)	$	(11,042)
Earnings Attributable to Common Stock *(excluding OSS and Other Adjustments)*	$	231,979		$	297,714		$	551,777
Adjusted 12 Month Average Total Common Shareholder's Equity	$	1,333,587	(B)	$	3,024,095	(B)	$	4,357,681
Return on Equity (%)		17.40%			9.84%			12.66%

(A) Per Books Common Shareholder's Equity (SHE)

CSP Period Ended	Total Common SHE (000's)	**OPCO** Period Ended	Total Common SHE (000's)
12/31/2009	1,359,835	12/31/2009	3,234,695
12/31/2010	1,486,215	12/31/2010	3,168,424
Per Books Average Common SHE	1,423,025		3,201,560

(B) See Exhibit TEM-1 page 2

Columbus Southern Power Company and Ohio Power Company
Annual SEET Filing
Adjustment Support
For the Year-Ended December 31, 2010

Line Number:	Adjustments; Description	CSP-2010 (000's)		OPCo -2010 (000's)	
1	OSS (See page 3)	$(47 224)	(A)	$ (51 782)	(A)
2	Org. Restructuring Program	$ 20 809	(B)	$ 36 055	(B)
3	Medicare Part D Subsidy Change	$ 909	(B)	$ 2 780	(B)
4	2009 SEET Adjustment	$ 27,411	(B)	$ -	(B)
5	Sub-total	$ 1,905		$ (12,947)	
6	Total w/o OSS	$ 49 129		$ 38 835	

7 (A) See Exhibit TEM-1 page 3

		(B) CSP			OPCo		
8							
9	Description	Pre-Tax	Tax Rate	After-Tax	Pre-Tax	Tax Rate	After-Tax
10	Org. Restructuring Program	32 402	35 78%	20 809	56 610	36.31%	36 055
11	Medicare Part D Subsidy Change	1 416	35 78%	909	4 365	36 31%	2 780
12	*2009 SEET Refund*	*42 683*	*35 78%*	*27 411*	-		-

13	**Adjusted Common SHE**						
14	**CSP**		**Total Common**		**OPCO**	**Total Common**	
15			**SHE**			**SHE**	
16	**Period Ended**		**(000's)**		**Period Ended**	**(000's)**	
17		12/31/2010	1 486 215		12/31/2010	3 168 424	
18	Current year adjustments						
19	excluding OSS		49,129	(Line 6)		38,835	(Line 6)
20	Adjusted 12/31/10 Common SHE		1,535 344			3 207 259	
21	Unadjusted 12/31/09 Common SHE		1,359,835			3,234,695	
22	Adjusted Avg Common SHE w/o OSS		1 447 590			3 220 977	
23	OSS Adjustment		114,003	(C)		196,882	(D)
24	Adjusted Average Common SHE		1 333 587			3 024 095	

25 (C) See Exhibit TEM-1 Page 4

Columbus Southern Power Company and Ohio Power Company
Annual SEET Filing
Off-System Sales Net Margins
For the 12 Months Ended December 31, 2010

Off-System Sales Net Margins

Month	CSP - Before Tax (000's)	CSP - After Tax (000's)	CSP - After Tax Cummulative (000's)	OPCo - Before Tax (000's)	OPCo - After Tax (000's)	OPCo - After Tax Cummulative (000's)
January	$ 8,066	$ 5,180	$ 5,180	$ 10,778	$ 6,865	$ 6,865
February	6,507	4,179	9,359	7,823	4,982	11,847
March	2,809	1,804	11,163	3,136	1,997	13,844
April	2,894	1,859	13,022	3,289	2,095	15,939
May	2,028	1,302	14,324	2,233	1,422	17,361
June	7,418	4,764	19,088	7,912	5,039	22,400
July	12,208	7,840	26,928	12,770	8,133	30,533
August	8,598	5,522	32,450	11,230	7,152	37,685
September	9,146	5,874	38,324	10,500	6,687	44,372
October	4,751	3,051	41,375	4,625	2,946	47,318
November	4,811	3,090	44,465	4,556	2,902	50,220
December	4,296	2,759	47,224	2,452	1,562	51,782
Total Off-System Sales Net Margins	$ 73,532	$ 47,224		$ 81,304	$ 51,782	
Tax Rate	35.78%			36.31%		

Columbus Southern Power Company and Ohio Power Company
Annual SEET Filing
OSS Equity Adjustment
For the 12 Months Ended December 31, 2010

Company Proposed Method

	CSP 2010	OPCo 2010	
	(000's)	(000's)	
1. Calculate PP&E Ratio			
Total Average Generation Net Plant	$ 1,710,827	$ 4,350,239	
Total Net Plant	$ 3,263,204	$ 6,274,622	
Total Avg. Generation / Total Plant	52.43%	69.33%	**(A), (1)**
2. Calculate OSS in Equity			
Per Books Average Equity	$ 1,423,025	$ 3,201,560	**(B)**
Amount of equity "supporting" Production Plant	$ 746,092	$ 2,219,641	**(C) = (A) X (B)**
3. MWH Allocation			
Average OSS as % of Net Plant (See Page 5)	15.28%	8.87%	**(D)**
Amount of equity "supporting" Production Plant	$ 746,092	$ 2,219,641	**(C)**
	$ 114,003	**$ 196,882**	**(C) X (D)**

(1) Total Avg. Generation / Total Plant

CSP

2010	Gross	Depreciation	Net	
Intangible Plant	60,244	-	60,244	
Production Plant	2,772,774	1,061,823	1,710,951	**(E)**
Transmission Plant	658,516	244,647	413,869	
Distribution Plant	1,792,667	746,786	1,045,881	
General Plant	96,401	40,177	56,224	
Totals	5,380,602	2,093,433	3,287,169	**(F)**

CSP

2009	Gross	Depreciation	Net	
Intangible Plant	55,521	-	55,521	
Production Plant	2,723,047	1,012,345	1,710,702	**(G)**
Transmission Plant	619,884	234,237	385,647	
Distribution Plant	1,742,607	710,916	1,031,691	
General Plant	95,862	40,184	55,678	
Totals	5,236,921	1,997,682	3,239,239	**(H)**

Average Gen	1,710,827	**(E+G)/2**
Average Total	3,263,204	**(F+H)/2**
Avg. Gen./Total	52.43%	

OPCo

2010	Gross	Depreciation	Net	
Intangible Plant	66,636	-	66,636	
Production Plant	6,857,587	2,583,268	4,274,319	**(E)**
Transmission Plant	1,232,471	518,620	713,851	
Distribution Plant	1,625,195	539,327	1,085,868	
General Plant	143,978	56,713	87,265	
Totals	9,925,867	3,697,928	6,227,939	**(F)**

OPCo

2009	Gross	Depreciation	Net	
Intangible Plant	76,310	-	76,310	
Production Plant	6,708,451	2,282,292	4,426,159	**(G)**
Transmission Plant	1,164,352	497,043	667,309	
Distribution Plant	1,567,146	503,031	1,064,115	
General Plant	141,102	53,691	87,411	
Totals	9,657,361	3,336,057	6,321,304	**(H)**

Average Gen	4,350,239	**(E+G)/2**
Average Total	6,274,622	**(F+H)/2**
Avg. Gen./Total	69.33%	

Annual SEET Filing
Compnay Proposed OSS Equity Adjustment
For the 12 Months Ended December 31, 2010
Source: Monthly AEP Interchange Power Statements (IPS) Page 10s

	2010	Total 2010 - OPCO MWh			
		Total Gen	LSE	OSS	%OSS
OPCO	AMOS 3	6,002,749	4,837,637	1,165,112	19.41%
	CARDINAL 1	3,602,911	3,376,251	226,660	6.29%
	CARDINAL 2	182,935	0	182,935	100.00%
	CARDINAL 3	273,251	0	273,251	100.00%
	GAVIN 1	8,819,705	8,618,419	201,286	2.28%
	GAVIN 2	10,065,854	9,807,225	258,629	2.57%
	KAMMER 1	502,282	362,604	139,678	27.81%
	KAMMER 2	581,823	450,370	131,453	22.59%
	KAMMER 3	414,319	305,238	109,081	26.33%
	MITCHELL 1	4,905,406	4,448,473	456,933	9.31%
	MITCHELL 2	5,336,655	5,053,187	283,468	5.31%
	MUSKINGUM 1	739,225	693,246	45,979	6.22%
	MUSKINGUM 2	661,797	594,240	67,557	10.21%
	MUSKINGUM 3	917,966	857,022	60,944	6.64%
	MUSKINGUM 4	1,044,158	967,500	76,658	7.34%
	MUSKINGUM 5	3,338,739	3,218,680	120,059	3.60%
	SPORN 1	0	0	0	0.0%
	SPORN 2	544,771	303,328	241,443	44.32%
	SPORN 3	0	0	0	0.0%
	SPORN 4	520,837	291,776	229,061	43.98%
	SPORN 5	221,956	172,361	49,595	22.34%
	TOTAL	48,677,339	44,357,557	4,319,782	8.87%

	2010	Total 2010 - CSP MWh			
		Total Gen	LSE	OSS	%OSS
CSP	BECKJORD 6	244,388	225,559	18,829	7.70%
	CONESVILLE 1	0	0	0	0.0%
	CONESVILLE 2	0	0	0	0.0%
	CONESVILLE 3	544,811	407,414	137,397	25.22%
	CONESVILLE 4	1,002,200	864,053	138,147	13.78%
	CONESVILLE 5	1,629,602	1,143,352	486,250	29.84%
	CONESVILLE 6	1,851,251	1,301,454	549,797	29.70%
	DARBY 1	7,112	6,370	742	10.43%
	DARBY 2	7,060	6,296	764	10.82%
	DARBY 3	8,306	7,626	680	8.19%
	DARBY 4	7,276	6,537	739	10.16%
	DARBY 5	1,463	1,422	41	2.80%
	DARBY 6	6,876	6,221	655	9.53%
	LAWRENCEBURG 1	719,816	627,371	92,445	12.84%
	LAWRENCEBURG 2	828,046	714,272	113,774	13.74%
	PICWAY 5	65,072	20,658	44,414	68.25%
	STUART 1	775,053	751,579	23,474	3.03%
	STUART 2	1,006,363	907,323	99,040	9.84%
	STUART 3	799,421	720,427	78,994	9.88%
	STUART 4	881,512	787,747	93,765	10.64%
	WATERFORD	1,221,136	1,058,730	162,406	13.30%
	ZIMMER 1	2,462,245	2,355,485	106,760	4.34%
	TOTAL	14,069,009	11,919,896	2,149,113	15.28%

Exhibit TEM - 2

Columbus Southern Power Company
Annual SEET Filing

Equity Return on Incremental 2001 - 2008 Environmental Investments
an on 2009 Environmental Investments
For the 12 Months Ended December 31, 2010

2001 - 2008 Environmental Investments

Description		CSP	
Base Generation Revenue Including Increase for Environmental Investments	$	433,736,690	
ESP Approved Increase in Base G for 2001-2008 Envrionmental Carrying Costs		6 29%	**(A)**
ESP Approved Increase + 100%		106 29%	
Calculated Original Base Generation Revenue		408,076,649	
Total ESP Environmental Revenue	$	25,660,041	
Equity portion of Return - **After Tax**		5 25%	**(B)**
Approved Carrying Charge Rate		14 94%	**(C)**
Carrying Charge Rate Percentage of Approved Return		35.14%	
After-Tax Total ESP Environmental Revenue Attributable to Equity Earnings		**9,016,938**	
Tax Rate		35 78%	
Pre-Tax ESP Environmental Revenue Attributable to Equity Earnings)		**14,040,701**	

(A) % Increase based on ESP approved increase for environmental carrying costs Rates were included in the application filed in Case No. 09-1906-EL-ATA on Schedule 2 for CSP to adjust annual Non-FAC revenue

(B) From Exhibits PJN-11 in ESP filing Case Numbers 08-917-EL-SSO

(C) From Exhibits PJN-10 in ESP filing Case Numbers 08-917-EL-SSO based on 25 year life property

2009 Environmental Investments Cost Recovery Rider (EICRR)

Total EICRR Revenues	6,037,254	
Equity portion of Return - **After Tax**	5 25%	**(D)**
Approved Carrying Charge Rate	13 59%	**(E)**
Carrying Charge Rate Percentage of Approved Return	38.63%	
After-Tax Total ESP Environmental Revenue Attributable to Equity Earnings	**2,332,191**	
Tax Rate	35 78%	
Pre-Tax ESP Environmental Revenue Attributable to Equity Earnings)	**3,631,565**	

(D) From Exhibits PJN-11 in ESP filing Case Numbers 08-917-EL-SSO.

(E) From CSP Compliance tariffs filed in EICRR Case No 10-155-EL-RDR - Attachment B based on 25 year life property

Columbus Southern Power Company
Annual SEET Filing
Equity Return on Enhanced Vegetation Management Investments
For the 12 Months Ended December 31, 2010

	Month		CSP	Carrying Cost Rate(A)		Carrying Cost Portion
ESRP Revenues	January 2010	$	849,588	1 32%	$	11,215
	February		744 090	1 32%	$	9,822
	March		712,047	1 32%	$	9,399
	April		675 285	1 32%	$	8 914
	May		652,126	1 32%	$	8,608
	June		865 262	1 32%	$	11,421
	July		1,002,242	1 32%	$	13,230
	August		1 043 926	1 32%	$	13 780
	September		1 121 479	5 95%	$	66,728
	October		810,517	5 95%	$	48 226
	November		768,708	5 95%	$	45,738
	December		875,957	5 95%	$	52,119
Total ESRP Revenue		$	10 121 228			299 200

Revenues Related to Capital Based on Approved Rider	299,200	
After-Tax Equity Portion of Return	5.25%	(B)
Approved Carrying Charge Rate	14 96%	(C)
Carrying Charge Rate Attributable to Approved Return	35.09%	
After-Tax Total ESRP Revenue Attributable to Equity Earnings	104,989	
Tax Rate	35.78%	
Pre-Tax Total ESRP Revenue Attributable to Equity Earnings (After-Tax Equity Earnings / (1-Tax Rate)	163,483	

(A) Ratio of incremental capital revenue requirement to total incremental revenue requirement for 2010 based on prior year ratio and updated for the rate change in September 2010 approved in PUCO Case No 10-163-EL-RDR Calculated as follows:

	O&M	Capital	Total
Total 2010 Revenue Requirement	10 130 170	641 433	10 771,603
Allocated %	94 05%	5 95%	

(B) Approved Return Equity component in Exhibit PJN-11 of the ESP filing.

(C) Approved Carrying Charge in ESRP Rider Case No 10-0155-EL-RDR

Columbus Southern Power Company
Annual SEET Filing
Equity Return on gridSMART Investments
For the 12 Months Ended December 31, 2010

Month	Total Revenue	O&M	Carrying Cost Ratio		Carrying Cost Revenue
January 2010	765,706	421,138	45%	(A)	344,568
February	671,176	369,147	45%		302,029
March	641,756	352,966	45%		288,790
April	608,629	334,746	45%		273,883
May	587,758	323,267	45%		264,491
June	779,818	428,900	45%		350,918
July	903,279	496,803	45%		406,476
August	940,858	517,472	45%		423,386
September	535,714	214,286	60%		321,428
October	532,945	213,178	60%		319,767
November	528,129	211,252	60%		316,877
December	542,161	216,864	60%		325,297
Total	8,037,929	4,100,019			3,937,910

After-Tax Equity Portion of Return	5 25% **(B)**
Weighted Average Carrying Charge Rate	25 23% **(C)**
Carrying Charge Rate Attributable to Equity Return	19.98%
After-Tax Equity Earnings on gridSMART	**786,794**
Tax Rate	35.78%
Pre-Tax	**1,225,154**

(A) Ratio of incremental capital revenue requirement to total incremental revenue requirement for 2010 based prior year ratio and updated for the rate change in September 2010 approved in PUCO Case No 10-164-EL-RDR Calculated as follows:

	O&M	Capital	Total
Total 2010 Revenue Requirement	2,566,215	3,827,873	6,394,088
Allocated %	40%	60%	100%

(B) Approved Return, Equity component, in Exhibit PJN-11 of the ESP filing

(C)

Capital Life	Approved Rate		Capital Investments		Weighted Average	
Capital - 5 Year Life	32 02%	**(D)**	36,526	**(A)**	11,696	
Capital - 7 Year Life	27 29%	**(D)**	2,404,689	**(A)**	656,240	
Capital - 15 Year Life	18 88%	**(D)**	253,138	**(A)**	47,792	
Capital - 30 Year Life	15 71%	**(D)**	376,910	**(A)**	59,213	
			3,071,263		774,941	25 23%

(D) Approved Carrying Charge Rates based on filed compliance tariffs as Attachment B in Case No. 10-164-EL-RDR.

Exhibit TEM - 5

Columbus Southern Power Company
Annual SEET Filing
Net Incremental POLR Revenues
For the 12 Months Ended December 31, 2010

		CSP Year Ended: December 31, 2010
POLR at ESP Rates	$	94,643,257
POLR at RSP Rates		13,612,872
Incremental POLR		81,030,385
Less: POLR Offset to Economic Development Rider		6,156,554
Net Incremental POLR		74,873,831
Tax Rate		35.78%
Tax	$	26,789,857
After-Tax Net Incremental POLR	$	48,083,974