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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 Establish a Standard Service Offer Pursuant to § 4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan.	:	Case Nos. 11-346-EL-SSO 11-348-EL-SSO
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of Certain Accounting Authority.	:	Case Nos. 11-349-EL-AAM 11-350-EL-AAM

PREFILED TESTIMONY
OF
ROBERT B. FORTNEY

ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO
UTILITIES DEPARTMENT
RATES & TARIFFS/ENERGY & WATER DIVISION

STAFF EX. ___

August 4, 2011

1. Q. Please state your name and business address.

A. My name is Robert B. Fortney. My business address is 180 E. Broad Street, Columbus, Ohio 43215.

2. Q. By whom are you employed and in what capacity?

A. I am employed by the Public Utilities Commission of Ohio (PUCO) as a Public Utilities Administrator 3 in the Rates and Tariffs Division of the Utilities Department.

3. Q. Please outline your educational background and work experience.

A. I received a Bachelor of Science Degree in Business Administration from Ball State University, Muncie, Indiana, in 1971. I received a Master of Business Administration Degree from the University of Dayton, Dayton, Ohio, in 1979. I have been with the Commission Staff for 26 years, involved in all aspects of electric utility rates, rules and regulations.

4. Q. What is the purpose of your testimony in this proceeding?

A. It is Staff's intent to provide testimony only for the issues in the companies' application that Staff either does not support, or is proposing to be modified. To that end, I am providing Staff's response to the companies' proposals related to the Generation Service rider (GSR), the Market Transition Rider (MTR), and the Rate Security Rider (RSR). In addition, I briefly discuss the Staff's position relative to a "timing" (referred to as "bridge") issue discussed by Companies' witness Roush in his testimony (i.e. what happens if the proposed ESP is not approved prior to December 30, 2011) and the Staff's position on the proposed Ohio Growth Fund. Next, I will discuss an alternative proposal for the Commission to consider. Finally, I will compare the ESP to an MRO.

5. Q. What is the Companies' proposal for generation rates?

A. The answer is somewhat complex because the Companies' proposal is multi-faceted and involves several steps being taken simultaneously. According to the testimonies of Mr. Roush and Mr. Hamrock:

(1) AEP Ohio is proposing to remove all base generation charges from its SSO tariffs and relocate the charges to a single Standard Offer Generation Service Rider (GSR);

(2) The GSR includes the same rates and charges for CSP and OPCo customers consistent with the pending merger of the companies;

(3) The companies determined the market-based price relationship for the various types of customer usage by applying the same methodology used to develop the competitive benchmark price to the specific customer load shapes;

(4) The proposed generation rates were designed to maintain those relationships (it is the pricing relationships that are established in

this manner; not the overall price levels) and *produce the average generation price requested by AEP-Ohio*;

(5) The projected full costs for both the Fuel Adjustment Clause (FAC) and the Environmental Investment Carrying Cost Rider (EICCR) were then deducted to achieve the AEP-Ohio base generation rates;

(6) In order to design rates which better reflect market structures, which typically reflect costs in energy (kWh) rather than demand (kW), the proposed rate design eliminates explicit demand charges; and,

(7) The market transition Rider (MTR) was then designed to facilitate the transition from the companies' current generation rates to the market-based SSO rates in order to mitigate the impact for those customers most affected by the shift.

6. Q. Does Staff support the proposed increase to base generation rates?

A. No.

7. Q. Why not?

A. Staff does not believe that it necessary to make the substantial changes being proposed by the Companies. The Companies are attempting to modify the rate structure simply to establish a market-based pricing relationship. Unfortunately, these changes result in substantial cost shifts. These shifts are so substantial that the Companies have proposed the Market

Transition Rider to phase-in the impacts over the proposed 29-month ESP period. Until such time as the costs to AEP are actual market prices, the Staff does not believe a complete rate design overhaul is necessary. If and when the companies are under an MRO (or, market-based generation results from an auction, an RFP process, or some other procedure to procure market-based generation), then such a rate design may be more appropriate, and cost shift impacts can be dealt with at that time. As an alternative, the Commission could consider allowing any increase approved in base generation rates to be recovered through a market-based pricing mechanism. But the rate structure for current base generation rates should remain intact.

Also, on the topic of the proposed rate design which reflects market structures, Mr. Roush states that it would provide all customers with equivalent opportunities to shop and should make it easier for customers to evaluate competitive offers. This is a real stretch. Unless every other Rider (proposed and current) is non-bypassable, the base generation rate is only one consideration in a customer's price to compare. The vast majority of customers are not going to read the Companies' tariffs and rate schedules to calculate their own price to compare. Rather, they will rely on the Companies (or perhaps a CRES provider) to let them know their price to compare based upon the entirety of the tariffs.

The Companies also indicate that it has been a long time (1990s) since the structure of the rates was determined and, therefore, cross subsidies exist in today's rate structure. Staff agrees that the rate structure has been in place for years. It also submits that the rate structure has survived the Companies' transition plans, rate stabilization plans, and the current ESPs. While that structure may contain some cross subsidies, the cost shifts that would result from going to market-reflective rates create significant problems of their own regarding individual customer impacts.

In addition, Staff does not agree with the Companies' proposal to increase generation rates at this time. The proposed revenue is simply determined to be lower than the revenue that would be generated based upon the market rate projected by AEP witness Laura Thomas. To Staff's knowledge, there is no cost-based rationale to the Companies's proposal. As a result, the Staff has no reason to believe that such an increase in revenues is warranted at this time.

In regard to OP and CSP customers paying the same charge, the Staff recommends that the current, separate rate structures be maintained. Quite simply, the merger has not been approved. Once, and if, the merger is approved, then AEP-Ohio can apply to the Commission, and the Commission can then consider combined rates.

8. Q. What then is Staff's recommendations regarding base generation rates and the Market Transition Rider?

A. Staff recommends that the current base generation rates be maintained. Therefore, there is no need for a transition rider.

9. Q. Did you develop a new ESP generation rate based on these recommendations, such that Staff's proposed ESP generation rate can be compared to the Applicant's proposed ESP generation rate?

A. Yes. In the Roush work papers (Volume 5 of the application), Mr. Roush has a table titled "Market Comparable Generation Prices." On the bottom line, labeled "Market Comparable Total G - AEP Ohio," he derives a rate of $58.42 for 2012 and a rate of $60.82 for 2013 through May of 2014. The comparable rates for the Market Comparable Total G – AEP Ohio when the current base generation rates are maintained (and all other things are as proposed) is $56.97 for both time periods.

10. Q. Please describe the Rate Security Rider as proposed by the Companies.

A. This Rider provides a voluntary option for customers that are willing to commit to SSO service from the Companies from January 2012 through

May 2017. It will be made available to certain customers having annual peak demands that exceed 200 kW and will be limited to an annual aggregated usage of 2,500 GWh. Customers will pay all rates and charges under their applicable SSO rate schedule but receive a declining discount on their base-generation rate. The discount will be 15% for the period of January 2012 through May 2014, 10% for the period June 2014 through May 2015, and 5% for the period June 2015 through May 2016.

11. Q. What is Staff's position regarding this proposed Rider?

A. I have some good news, and I have some bad news. The good news is that (1) the Rider promotes continued economic recovery in Ohio; (2) the revenues lost as a result of the discounts are not recovered from other ratepayers; and, (3) the customers taking advantage of the Rider will see some degree of rate stability and rate certainty. The bad news is that the Rider could be considered as being (1) discriminatory, because its availability is restricted to customers of specified SIC codes; and, (2) anti-competitive, because it requires customers to take full service from the Companies for the full term, or suffer significant penalties. Because of the negative issues that result from the regulated operating Companies being the entities offering this proposal, it seems to Staff that this may be an excellent opportunity for an AEP retail marketing affiliate to provide a similar service.

12. Q. What is the Staff's position relative to a the "bridge" issue discussed by company witness Roush in his testimony regarding what happens if the proposed ESP is not approved prior to December 30, 2011?

A. If the ESP proposed in this proceeding is not approved prior to December 30, 2011 (which begins the first billing cycle of 2012), the Commission will direct the Companies to proceed in compliance with whatever the appropriate existing statutes mandate.

13. Q. Have the Companies proposed an economic development program as part of this SSO?

A. Yes. The Companies propose a new AEP Ohio Growth Fund, which would provide $10 million annually in 2012, 2013, and $5 million in 2014. These funds are shareholder contributions and would support the JobsOhio plan, short term rate incentives, infrastructure investment, and direct support for other public-private partnerships in state and local economic development.

14. Q. Does Staff have an opinion regarding the proposed Ohio Growth Fund?

A. Staff agrees with the Companies' commitment to support economic development in Ohio and recommends that the Commission approve shareholder contributions to the Ohio Growth Fund. Staff recommends that the Commission direct the Companies to work with Staff in developing the criteria for the program.

15. Q. Did you say that you had an alternative ESP proposal?

A. Yes, I did. I propose that the ESP be extended by twelve months, for the period until June 1, 2014, making it a 41 month plan rather than a 29 month plan. For the extended 12 months, I recommend that the companies be allowed to increase the base generation rates by a total of $57 million. The purpose of extending the ESP period is to provide a time extension for the ESP/MRO comparison during which time market rates are expected to significantly increase (see the testimony of Staff witness Dan Johnson.)

16. Q. Did you perform a comparison between the ESP and the MRO?

A. Yes, I did. That analysis is shown on Attachment A to my testimony. I compared the results of the application, the results of the application as modified by Staff, the MRO rate as determined by Companies' witness Thomas, and the MRO rate as determined by Staff witness Johnson.

17. Q. What assumptions did you make?

A. One has to make several assumptions in order to make the comparisons.

First, the major difference between the rates derived by the company's application and the rates derived by the application as modified by Staff are (1) Staff has proposed no increases to the base generation rate for the period from January 1, 2012 through May 31, 2014. The applicant has requested base generation increases of approximately $65 million dollars in 2012 and an additional annual increase of approximately $105 million beginning in 2013. (2) Staff has proposed a twelve month extension, through May 31, 2015, with a base rate increase of $57 million dollars for that period. (3) The Staff recognizes the POLR obligation as being comprised of return risk only, which the Companies estimate to be 12% of the proposed constrained Black model valuation. I have shown this to be $0.0003408, which is approximately 12% of the POLR charge proposed by the applicant of $0.00284. This adjustment represents a reduction of approximately $109 million from the Companies' proposal.

Next, one must consider what additional revenue mechanisms the applicant has proposed. These take the form of various Riders as detailed in Attachment A. Some of the proposed Riders have zero revenue associated with them because the costs are unknown at this time. Even the Riders which can be currently quantified may be increased in the future due to additional costs. These unknowns cause significant uncertainty about the comparison, especially for future time periods when there may actually be rates (or increased rates) to recover those costs.

The comparison also makes the assumption that those Riders are a function of the ESP only and that they would not be present if the company were to apply for a market rate option. That may or may not be a valid assumption. I also should note that I am making no judgment on whether the Riders should be bypassable or non-bypassable. It does not make a difference for this analysis. Other Staff witnesses have the responsibility of making those recommendations.

There are other extraneous benefits in the ESP proposal. The company proposes to contribute in shareholder dollars $14.5 million to the Partnership With Ohio low income program and $25 million to the Ohio Growth Fund for businesses over the 29 month plan. It is unclear whether these contributions would take place under an MRO. The analysis does quantify them in the MRO/ESP rate comparison.

Also, the analysis takes into account a blending of the market rate with a standard service offer. Section 4928.142 (D) of Senate Bill 221 indicates to me that a company's first application for a MRO requires a proportionate blending of that market rate with the generation service price equal to the utility's most recent standard service offer which can be adjusted by the Commission for known and measurable changes (including fuel) in that most recent standard service offer. The analysis contemplates a change in the fuel component from $0.03033 to $0.03286. While the Commission can determine the blending percentages, the statute suggests a blending of 10%/90%, 20%/80% and 30%/70% for the first three years.

Finally, while actual ESP rates can be determined with some degree of objectivity, the market rate is subject to significant uncertainty due to the volatility of forward contract prices. Mr. Johnson's direct testimony highlights that uncertainty.

18. Q. Can you summarize the results of the analysis?

A. The following chart summarizes the results:

Description	Average Rate in cents per kWh
2012 AEP ESP Proposal	6.147
2012 Staff Modified ESP	5.747
2012 Thomas Blended Market Rate	5.902
2012 Staff Blended Market Rate	5.711
2013 – May, 2014 AEP ESP Proposal	6.389
2013 – May, 2014 Staff Modified ESP	5.747
2013 – May 2014 Thomas Blended Market Rate	6.212
2013 – May, 2014 Staff Blended Market Rate	5.781
Jun, 2014 – May, 2015 Staff Modified ESP	5.886
Jun, 2014 – May, 2015 Staff Blended Market Rate	6.192

19. Q. What do you conclude?

A. For illustration purposes, the following table summarizes the average rates per kWh over the term of the ESP. That is, for the Companies's proposal, the rates are averaged over 29 months (*i.e.* 12 + 17); for the Staff's modifications, the rates are averaged over 41 months (*i.e.* 12 + 17 + 12).

Description	Average Rate in cents/kWh Over the Term
AEP ESP Proposal	6.289
Staff Modified ESP	5.788
Thomas Blended MRO	6.084
Staff Blended MRO	5.881

I conclude that the ESP as proposed by AEP is not more favorable in the aggregate than the blended MRO as determined by Staff witness Johnson. In fact, it is not more favorable in the aggregate than the blended MRO as determined by its own witness, Laura Thomas. The ESP, as modified by Staff is the best option.

20. Q. Does this conclude your testimony?

A. Yes, it does. However, I reserve the right to supplement my testimony as new information subsequently becomes available or in response to positions taken by other parties.

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Prefiled Testimony of Robert B. Fortney,** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following Parties of Record, this 4th day of August, 2011.

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ON BEHALF OF THE OHIO ENVIRONMENTAL COUNCIL

Attachment A: ESP v. MRO cents per kWh

Category	Current	2012 Applicant Proposed ESP	2012 Staff Proposed ESP	2012 Thomas Projected MRO	Staff Projected MRO	Jan, 2013 May, 2014 Applicant Proposed ESP	Jan, 2013 May, 2014 Staff Proposed ESP	Jan, 2013 May, 2014 Thomas Projected MRO	Jan, 2013 May, 2014 Staff Projected MRO	Jun, 2014 May, 2015 Staff Proposed ESP	June, 2014 May, 2015 Staff Projected MRO
Base Generation	2.102	2.252	2.102			2.494	2.102			2.233	
Transmission Adjustment	0.214	0.214	0.214			0.214	0.214			0.214	
Fuel	3.033	3.286	3.286			3.286	3.286			3.286	
EICC	0.09	0.09	0.09			0.09	0.09			0.09	
Market Comparable Total Generation	5.439	5.842	5.692	7.791	5.885	6.084	5.692	8.29	6.138	5.823	7.359
Things that are part of the ESP but would not be in an MRO (or are already included in the MRO price #):											
Standard Offer Generation Service #		2.252	2.102			2.494	2.102			2.233	
Fuel Adjustment Clause #		3.286	3.286			3.286	3.286			3.286	
Environmental Investment carrying Cost Rider (EICCR)#		0.09	0.09			0.09	0.09			0.09	
Provider of Last resort (POLR)		0.284	0.03408			0.284	0.03408			0.03408	
Generation Resource Rider (GRR) Turning Point		0.018	0.018			0.018	0.018			0.026	
Generation NERC Compliance Cost Recovery (NERCR)		Unknown	Unknown			Unknown	Unknown			Unknown	
Facility Closure Cost Recovery Rider (FCCR)		Unknown	Unknown			Unknown	Unknown			Unknown	
Carbon Capture & Sequestration Rider (CCSR)		0.003	0.003			0.003	0.003			0.003	
Green Power Portfolio Rider (GPPR)		Unknown	Unknown			Unknown	Unknown			Unknown	
Pool Termination Modification Provision		Unknown	Unknown			Unknown	Unknown			Unknown	
Plug-In Vehichle Tariff (PEV)		Deferred	Deferred			Deferred	Deferred			Deferred	
Sub Total		5.933	5.53308			6.175	5.533			5.67208	
Plus: Transmission Adj to Compare to MRO #		0.214	0.214			0.214	0.214			0.214	
Total to compare		6.147	5.74708	7.791	5.885	6.389	5.747	8.29	6.138	5.88608	7.359
		Current rate* 90%		51.228	51.228		80%	45.536	45.536	70%	39.844
		Market rate 10%		7.791	5.885		20%	16.58	12.276	30%	22.077
				59.019	57.113			62.116	57.812		61.921
		Comparable MRO		5.9019	5.7113			6.2116	5.7812		6.1921

*Current rate = 5.439-3.033+3.286
5.692

ESP Benefits that may not be part of an MRO:

Partnership With Ohio Fund: Low Income
2012 $6 million
2013 $6 million
2014 $2.5 million

Ohio Growth Fund: Businesses
2012 $10 million
2013 $10 million
2014 $5 million

Rate Security Rider (RSR): voluntary & shareholder funded