

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio Power Company and Columbus Southern Power Company for Authority to Merge and Related Approvals.	)	)	Case No. 10-2376-EL-UNC
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 No. 11-346-EL-SSO Case No. 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 No. 11-349-EL-AAM Case No. 11-350-EL-AAM
In the Matter of the Application of Columbus Southern Power Company to Amend its Emergency Curtailment Service Riders	)	)	Case No. 10-343-EL-ATA
In the Matter of the Application of Ohio Power Company to Amend its Emergency Curtailment Service Riders	)	)	Case No. 10-344-EL-ATA
In the Matter of the Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company.	)	)	Case No. 10-2929-EL-UNC
In the Matter of the Application of Columbus Southern Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Ordered Under Ohio Revised Code 4928.144	)	)	Case No. 11-4920-EL-RDR
In the Matter of the Application of Ohio Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Ordered Under Ohio Revised Code 4928.144	)	)	Case No. 11-4921-EL-RDR

**TESTIMONY OF JOSEPH HAMROCK  
IN SUPPORT OF THE STIPULATION AND RECOMMENDATION  
ON BEHALF OF  
COLUMBUS SOUTHERN POWER COMPANY  
AND  
OHIO POWER COMPANY**

Filed: September 13, 2011

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JOSEPH HAMROCK IN SUPPORT OF THE STIPULATION  
AND RECOMMENDATION

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1 **PERSONAL DATA**

2 **Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

3 A. My name is Joseph Hamrock and my business address is 850 Tech Center Drive,  
4 Gahanna, Ohio 43230.

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

6 A. I am employed by the American Electric Power Service Corporation (AEPSC), a unit of  
7 American Electric Power (AEP). My title is President and Chief Operating Officer of  
8 AEP Ohio. AEP Ohio is an operating unit of AEP and is comprised of Columbus  
9 Southern Power Company (CSP) and Ohio Power Company (OPCo), hereby collectively  
10 referred to as AEP Ohio or the Company.

11 **Q. WHAT ARE YOUR RESPONSIBILITIES AS PRESIDENT AND CHIEF**  
12 **OPERATING OFFICER OF AEP OHIO?**

13 A. I am directly responsible for the day-to-day operations of AEP Ohio. As a part of my  
14 responsibilities, I oversee and lead AEP Ohio in establishing goals that are designed to  
15 support as well as achieve the objectives of the state of Ohio for the benefit of customers  
16 and shareholders.

17 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

1 A. I earned a bachelor of engineering degree in electrical engineering in 1985 from  
2 Youngstown State University. In 1999, I earned a master's degree in business  
3 administration from the Massachusetts Institute of Technology in Cambridge where I was  
4 a Sloan Fellow.

5 I joined AEP in 1986 as an electrical engineer and have worked over the years in  
6 transmission and distribution planning as well as commercial and industrial customer  
7 services. In Ohio, I am a registered professional engineer and have held several positions  
8 including Director-Strategic Development, Executive Assistant to E. Linn Draper Jr.  
9 (AEP's former Chairman, President and Chief Executive Officer), Senior Vice President,  
10 General Services, and Senior Vice President and Chief Information Officer (CIO). I have  
11 served in my current role as President and Chief Operating Officer of AEP Ohio since  
12 January 2008.

13 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE A**  
14 **REGULATORY AGENCY?**

15 A. Yes. I have testified before the Public Utilities Commission of Ohio (Commission) in  
16 AEP Ohio's Standard Service Offer (SSO) in the first Electric Security Plan (ESP) cases  
17 which are Case No. 08-917-EL-SSO for CSP and Case No. 08-918-EL-SSO OPCo  
18 (2009-2011 ESP); the subsequent proposed ESP cases currently pending which are Case  
19 No. 11-346-EL-SSO for CSP and Case No. 11-348-EL-SSO for OPCo (2012-2014 ESP);  
20 and the pending distribution cases which are Case No. 11-351-EL-AIR for CSP and Case  
21 No. 11-352-EL-AIR for OPCo (Distribution Case). Also, I testified before the  
22 Commission in the first annual Significantly Excessive Earnings Test (SEET) for 2009 in  
23 Case No. 10-1261-EL-UNC, and have submitted testimony in the pending 2010 SEET

1 Case Nos. 11-4571-EL-UNC and 11-4572-EL-UNC for CSP and OPCo, respectively.  
2 Finally, I submitted testimony before the Public Utility Commission of Texas (PUCT) in  
3 PUC Docket No. 33309.

4  
5 **PURPOSE OF TESTIMONY**

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

7 A. The purpose of my testimony is to summarize the provisions of the Stipulation and  
8 Recommendation (Stipulation) submitted on September 7, 2011 for the Commission's  
9 consideration. The Stipulation provides the basis for resolving a number of pending  
10 proceedings involving AEP Ohio, including: its request for authority to merge (Case No.  
11 10-2376-EL-UNC); its application for approval to establish a standard service offer  
12 (SSO) in the form of an electric security plan (ESP) and certain related accounting  
13 authority (Case Nos. 11-346-EL-SSO, 11-348-EL-SSO, 11-349-EL-AAM, and 11-350-  
14 EL-AAM); the Commission's review of the capacity charges that AEP Ohio charges to  
15 competitive retail electric service (CRES) providers (Case No. 10-2929-EL-UNC); AEP  
16 Ohio's application to amend its emergency curtailment service tariffs (Case No. 10-343-  
17 EL-ATA and 10-344-EL-ATA); and the AEP Ohio's application, pursuant to §4928.144,  
18 Ohio Rev. Code, for approval of a mechanism to recover its deferred fuel costs (Case  
19 Nos. 11-4920-EL-RDR and 11-4921-EL-RDR).

20 My testimony discusses the criteria that the Commission uses when considering  
21 settlement agreements and explains how the Stipulation in this proceeding meets those  
22 criteria. Specifically, my testimony supports the conclusion that the Stipulation; (1) is  
23 the product of serious bargaining among capable, knowledgeable parties; (2) does not

1 violate any important regulatory principle of practice; and (3) as a package, benefits  
2 ratepayers and the public interest.

3 I also support the conclusion, in conjunction with Company witnesses Allen and  
4 Thomas that AEP Ohio's proposed ESP, as modified by the Stipulation, including its  
5 pricing and other terms and conditions, is more favorable to customers in the aggregate  
6 than the expected results that would otherwise apply under a market rate offer (MRO).

7 Finally, I explain and support the conclusion that the merger of CSP and OPCo  
8 will promote the public convenience and result in the provision of adequate service at  
9 reasonable rates and charges.

10  
11 **SIGNATORY PARTIES**

12 **Q. WHO ARE THE SIGNATORY PARTIES TO THE STIPULATION?**

13 A. Numerous parties representing a variety of diverse interests have signed the Stipulation,  
14 including:

- 15 • CSP and OPCo;
- 16 • the Commission's Staff (Staff);
- 17 • industrial customers, namely members of The OMA Energy Group and the Ohio Energy  
18 Group (whose members include Aleris International, Inc., Amsted Rail Company, Inc.,  
19 AK Steel Corporation, ArcelorMittal, USA, BP-Husky Refining, LLC, E.I. DuPont de  
20 Nemours & Company, Ford Motor Company, GE Aviation, Proctor & Gamble Co.,  
21 Linde, Inc., Praxair Inc., Severstal Wheeling and Worthington Industries);

- 1 • commercial customers, namely members of The Ohio Hospital Association, The Kroger  
2 Co., Wal-Mart Stores East, LLP, and Sam’s East, Inc., and The Association of  
3 Independent Colleges and Universities of Ohio;
- 4 • municipalities, including their residential customers, namely, the City of Grove City, and  
5 the City of Hilliard;
- 6 • CRES providers, namely Constellation NewEnergy, Inc., LLC, Duke Energy Retail  
7 Sales, LLC, AEP Retail Energy Partners LLC, and the Retail Energy Supply Association  
8 (whose members include: Champion Energy Services, LLC, ConEdison Solutions,  
9 Constellation Energy, Inc.; Direct Energy Services, LLC, Engentrix, Inc, Energy Plus  
10 Holdings, LLC, Exelon Energy Company, GDF SUEZ Energy Resources NA, Inc.,  
11 Green Mountain Energy Company, Hess Corporation, Integrys Energy Services, Inc.,  
12 Just Energy, Liberty Power, MC Squared Energy Services, LLC, Mint Energy, LLC,  
13 MX Energy, NextEra Energy, Noble Americas Energy Solutions, PPL EnergyPlus, LLC;  
14 Reliant Energy, TriEagle Energy, L.P.).
- 15 • Competitive generation suppliers, including Constellation Energy Commodities Group,  
16 Exelon Generation Company, LLC, and the PJM Power Providers Group (whose  
17 members include: Public Service Enterprise Group Inc., Exelon Corp., Constellation  
18 Energy Group Inc., NextEra Energy Inc., NRG Energy Inc., Calpine Corp., PPL Corp.,  
19 and GenOn Energy Inc.)
- 20 • Alternative energy resource and demand response/energy efficiency providers, including  
21 Paulding Wind Farm II, LLC, and EnerNOC; and
- 22 • Environmental advocacy groups, namely the Natural Resources Defense Council, Sierra  
23 Club, the Ohio Environmental Council, and the Environmental Law and Policy Center.

1 **OVERVIEW OF THE STIPULATION**

2 **Q. PLEASE PROVIDE AN OVERVIEW OF THE STIPULATION.**

3 A. The Stipulation addresses and resolves a large number of issues facing AEP Ohio and its  
4 customers, and it provides numerous benefits to customers and competitive suppliers.  
5 The Stipulation is supported by a broad and diverse group of stakeholders, and it provides  
6 a reasonable and steady path to fully competitive markets for supplying electricity to  
7 AEP Ohio’s customers. By agreeing to corporate separation of AEP Ohio’s generation  
8 and non-generation functions, along with associated changes to AEP’s business model,  
9 the path is being cleared for competitive auctions to serve AEP Ohio’s Standard Service  
10 Offer (SSO) load. I have been advised by counsel that implementing an auction-based  
11 SSO is not something the Commission can require of an EDU within an ESP; in that  
12 regard, the entire structure of the Stipulation is based on a negotiated result not possible  
13 in litigation that will yield a fully competitive SSO rate into the future. AEP Ohio will  
14 also switch to PJM’s Reliability Pricing Model (RPM), thereby eliminating the  
15 distinction between the compensation model for AEP Ohio’s generating resources and  
16 the compensation model adopted by competitive retail electric suppliers. During the  
17 transition, AEP Ohio will provide discounted capacity prices to competitive suppliers for  
18 increasing portions of AEP Ohio’s generation portfolio in order to support growth of  
19 robust competitive supply options for customers and to resolve the pending capacity  
20 compensation case for AEP Ohio. The generation prices for SSO customers during this  
21 transition will reflect a highly simplified pricing structure that essentially fixes the base  
22 generation rate and varies primarily based on the cost of fuel and other components of the  
23 FAC rate. With support from the new Distribution Investment Rider (DIR), the



1 Company will be able to sustain critical investments that benefit customers by  
2 maintaining and improving service reliability. Economic development and low income  
3 support from AEP shareholder funds are also provided in this stipulation, along with a  
4 number of alternative and advanced energy programs. The opportunity for AEP Ohio to  
5 build new generating resources that will be dedicated to its retail customers is a  
6 noteworthy element of this plan, in that it provides for a path to cost-based generating  
7 pricing that can serve as a hedge against potentially volatile market prices. This plan  
8 represents a significant number of compromises for the Company, and provides for a  
9 balanced outcome for all stakeholders. The Stipulation assures the availability of reliable  
10 supplies of power at reasonable and stable rates for AEP Ohio's generation SSO  
11 customers, further enhances competitive opportunities for customers and suppliers,  
12 provides stable distribution rates for customers, provides for enhancements, both in the  
13 reliability and the manner in which customers can manage their consumption of electric  
14 services, promotes economic development, energy efficiency, and alternative energy  
15 resources, and provides continued support for low income customer programs.

16 **Q. DOES THE STIPULATION RESOLVE EACH OF THE PROCEEDINGS THAT**  
17 **IT ADDRESSES ON A REASONABLE BASIS?**

18 A. Yes, I believe that each of these proceedings is resolved in an arm's length negotiated  
19 manner that is reasonable and appropriate. Below, I specifically support the Stipulation's  
20 recommendation that the ESP, as modified, also should be approved (Case Nos. 11-346-  
21 EL-SSO, 11-348-EL-SSO, 11-349-EL-AAM, and 11-350-EL-AAM); and that CSP's and  
22 OPCo's request for merger authority should be approved (Case No. 10-2376-EL-UNC).  
23 Company witness Munczinski supports the reasonableness and appropriateness of the

1 manner in which the Stipulation resolves capacity pricing issues (Case No. 10-2929-EL-  
2 UNC). Company witness Roush supports the Stipulation's resolution of the emergency  
3 curtailment service rider issues (Case Nos. 10-343-EL-ATA and 10-344-EL-ATA), and  
4 Company witness Allen supports its resolution of the recovery of deferred fuel expenses  
5 through the Phase-in Recovery Rider (Case Nos. 11-4920-EL-RDR and 11-4921-EL-  
6 RDR).

7  
8 **CRITERIA FOR CONSIDERING APPROVAL OF A STIPULATION**

9 **Q. WHAT IS THE STANDARD THAT THE COMMISSION HAS USED WHEN**  
10 **CONSIDERING APPROVAL OF A STIPULATION AMONG PARTIES TO**  
11 **PROCEEDINGS?**

12 A. Based on advice of counsel, my understanding is that a stipulation must satisfy a three-  
13 part test. The questions that the Commission considers, as I understand it, are: (1) is the  
14 stipulation the product of serious bargaining among capable, knowledgeable parties? (2)  
15 does the stipulation violate any important regulatory principle or practice? and (3) as a  
16 package, does the stipulation benefit ratepayers and the public interest?

17  
18 *The Stipulation Is The Result Of Serious Bargaining Among Capable, Knowledgeable Parties*

19 **Q. IS THE STIPULATION SUBMITTED IN THIS CASE THE PRODUCT OF**  
20 **SERIOUS BARGAINING AMONG CAPABLE AND KNOWLEDGEABLE**  
21 **PARTIES?**

22 A. Yes. The Stipulation that has been proposed in this case is the result of a lengthy process  
23 of negotiation involving experienced counsel representing members of every affected

1 stakeholder group. In addition, the Stipulating Parties were represented by counsel with  
2 many years of experience in proceedings before the Commission.

3 The Parties met and communicated for over a month before the Stipulating Parties  
4 agreed to the Stipulation and Recommendation. AEP Ohio circulated its first proposed  
5 settlement term sheet to all of the Parties on August 3, 2011. Between August 3 and  
6 August 30, 2011, representatives of AEP Ohio, the Staff, and the Intervening Parties met  
7 five times to try and resolve the multiple issues and disagreements between the parties.  
8 These meetings involved representatives of every intervening stakeholder group affected  
9 by the Stipulation, including industrial, commercial and residential customers,  
10 competitive generation suppliers, CRES providers, municipalities, alternative and  
11 advanced energy providers, curtailment service providers, and environmental groups.  
12 During that time period, AEP Ohio circulated revisions to its proposed term sheet a  
13 number of times to all of the Parties. The Staff met separately with representatives of the  
14 Intervening Parties without AEP Ohio for a period of nearly a week (starting on August  
15 17) to develop counterproposals to AEP Ohio's proposals.

16 On August 30, 2011, AEP Ohio, Staff, and numerous intervenor parties filed a  
17 joint motion to continue the hearing date, so as to allow for further settlement  
18 negotiations. FirstEnergy Solutions Corp., Industrial Energy Users-Ohio, and Ohio  
19 Partners for Affordable Energy opposed the motion and chose to stop participating in the  
20 settlement negotiations. The Office of the Ohio Consumers Counsel also chose to stop  
21 participating in the negotiations at that juncture. Even during this period, AEP Ohio  
22 continued to reach out to Parties that were not participating in an attempt to keep an open  
23 settlement dialogue. Also during this period, AEP Ohio, the Staff, and the remaining

1 intervenor parties met several more times and considered multiple proposals and  
2 counterproposals before ultimately reaching agreement on the Stipulation and  
3 Recommendation on September 7, 2011. The day before the Stipulation was finalized,  
4 AEP Ohio sent the Stipulation to all Parties and requested a final counter-offer or  
5 solicitation for additional discussions.

6 In sum, throughout this lengthy process, the parties considered and debated the  
7 proposals of each customer class and interest group before AEP Ohio, the Staff, and the  
8 majority of intervening parties representing a broad cross-section of interests ultimately  
9 reached agreement on the Stipulation and Recommendation.

10  
11 ***The Stipulation Does Not Violate Any Important Regulatory Principle Or Practice***

12 **Q. DOES THE STIPULATION VIOLATE ANY IMPORTANT REGULATORY**  
13 **PRINCIPLE OR PRACTICE?**

14 A. I am not aware of any important regulatory principle or practice with which the  
15 Stipulation conflicts. As I explained above, the Stipulation resolves each of the various  
16 proceedings that it addresses in a manner that, in my opinion, is reasonable. In addition,  
17 none of the individual provisions of the Stipulation is inconsistent with or violates any  
18 important regulatory principle or practice. On the contrary, the Stipulation promotes a  
19 number of the state policies expressed in Ohio Revised Code 4928.02. Those policies  
20 advanced could include but may not be limited to: 1] subsection (A) ensuring the  
21 availability to consumers of adequate reliable, safe, efficient, nondiscriminatory, and  
22 reasonably priced retail electric service. 2] subsection (C) ensuring diversity of  
23 electricity supplies and suppliers, by giving consumers effective choices over the

1 selection of those supplies... 3] subsection (D) encouraging demand side management 4]  
2 subsection (G) continuing emergence of competitive electricity markets through the  
3 development and implementation of flexible regulatory treatment, and 5] subsection (N)  
4 facilitating the state's effectiveness in the global economy.

5  
6 *As A Package, The Stipulation Benefits Ratepayers And The Public Interest*

7 **Q. DOES THE STIPULATION AS A PACKAGE BENEFIT CUSTOMERS AND THE**  
8 **PUBLIC INTEREST?**

9 A. Yes. The Stipulation provides numerous benefits for customers and the public interest.  
10 Moreover, many of those benefits would not have been achievable absent the Stipulation.

11 **Q. WHAT ARE SOME OF THE SIGNIFICANT QUANTIFIABLE BENEFITS THAT**  
12 **THE STIPULATION PROVIDES TO CUSTOMERS AND STAKEHOLDERS?**

13 A. There are several very significant quantifiable benefits. First Company witness Thomas  
14 has estimated that the ESP price benefit alone for non-shopping customers, calculated on  
15 a weighted average basis during the ESP, amounts to \$1.67/MWH compared to the result  
16 expected from an MRO. Company witness Allen has quantified the present value of this  
17 pricing advantage, for non-shopping customers, to be \$130 million.

18 Second, the Stipulation also provides for a substantially reduced carrying cost on  
19 the unamortized balance of deferred fuel costs to be recovered during the seven-year  
20 period 2012-2018 through the Phase-In Recovery Rider. That reduction is a consequence  
21 of AEP Ohio's agreement to limit the carrying cost to a long-term debt interest rate,  
22 instead of the weighted average cost of capital that included a cost of equity component  
23 that the Commission's orders in the prior ESP proceeding authorized for the seven-year

1 amortization and recovery period. [Stip. IV.6.] Mr. Allen has calculated that the savings  
2 from this provision will amount to \$35.2 million during 2012 and (absent securitization)  
3 \$153.4 million over the seven-year (2012-2018) amortization and recovery period.

4 In addition, as part of the Stipulation, AEP Ohio will provide capacity to CRES  
5 providers at a significant discount from what it would otherwise be willing to charge.  
6 Mr. Allen estimates that the net present value of that discounted capacity pricing over the  
7 term of the ESP will amount to \$856 million. And, as I describe below, AEP Ohio has  
8 agreed to provide funding for the Partnership With Ohio (PWO) initiative of \$3 million  
9 annually and the Ohio Growth Fund (OGF) initiative of \$5 million annually during the  
10 term of the ESP.

11 In the aggregate, Mr. Allen estimates that the net present value of these  
12 quantifiable benefits that result from the Stipulation are in excess of \$1.1 billion. These  
13 are substantial quantifiable benefits that result from the Stipulation.

14 **Q. HOW DOES THE STIPULATION PROMOTE COMPETITION?**

15 A. As I mentioned above, the Stipulation provides a reasonable and steady path to fully  
16 competitive markets for supplying electricity to AEP Ohio's customers. By agreeing to  
17 corporate separation of AEP Ohio's generation and non-generation functions the path is  
18 being cleared for competitive auctions to serve AEP Ohio's SSO load. I have been  
19 advised by counsel that implementing an auction-based SSO is not something the  
20 Commission can require of an EDU within an ESP; in that regard, the entire structure of  
21 the Stipulation is based on a negotiated result not possible in litigation that will yield a  
22 fully competitive SSO rate into the future. During the ESP, AEP Ohio will provide  
23 discounted capacity prices to CRES providers for substantial and increasing portions of

1 AEP Ohio's capacity resources in order to support growth of robust competitive supply  
2 options for customers and to resolve the pending capacity compensation case for AEP  
3 Ohio. As Company witness Munczinski testifies, the RPM-priced set aside under the  
4 Stipulation for 2012 is roughly equal to the entire load of Toledo Edison, for 2013 is  
5 roughly equal to the entire load of Dayton Power & Light and for 2014 is roughly equal  
6 to the entire load of Duke Energy Ohio. The generation prices for SSO customer during  
7 this transition will reflect a highly simplified pricing structure. In short, the Stipulation  
8 provides a transition to complete corporate separation and full market pricing for  
9 generation services that is materially quicker than what would be possible otherwise, and  
10 it provides for transparent and stable pricing during that transition.

11 **Q. DOES THE STIPULATION IMPACT AEP OHIO'S PROPOSALS FOR THE**  
12 **IMPLEMENTATION OF NONBYPASSABLE RIDERS?**

13 A. Yes. Many of the stakeholders were opposed to a number of the existing and proposed  
14 nonbypassable generation-related riders included in AEP Ohio's proposed ESP. As part  
15 of the Stipulation, AEP Ohio has agreed to withdraw its proposals for the Facilities  
16 Closure Cost Recovery Rider, NERC Compliance Cost Recovery Rider, Carbon Capture  
17 and Sequestration Rider, Provider of Last Resort Rider (POLR), Environmental  
18 Investment Carrying Cost Rider (EICCR), and Rate Security Rider. As a result, except  
19 for the Generation Resource Rider, which I describe below, all of these proposed or  
20 existing nonbypassable generation-related riders will be withdrawn. [Stip. IV.1.a.] The  
21 withdrawal of these proposals, and in particular the elimination of the POLR and EICCR,  
22 provides significant rate benefits to customers.

1 **Q. WHY DID AEP OHIO AGREE TO WITHDRAW ITS PROPOSED**  
2 **NONBYPASSABLE RIDERS?**

3 A. AEP Ohio agreed to an overall package that will dramatically change its business model.  
4 The request for nonbypassable riders was consistent with AEP Ohio's current business  
5 model and its desire to operate with pricing designed to recover costs. However, the  
6 Signatory Parties (and the non-Signatory Parties) in the various proceedings detailed  
7 above were strongly opposed to such riders. Through the negotiations process, the  
8 parties supported AEP Ohio separating its generation assets and transitioning to  
9 competitive auctions for standard service offer supply. AEP Ohio's agreement to  
10 withdraw the nonbypassable riders is consistent with this transition to market.  
11 Elimination of these riders, along with implementation of a fixed base generation rate  
12 through the transition plan significantly improves rate stability and predictability for  
13 customers, while shifting risks to AEP Ohio. Of particular note, the significant  
14 environmental compliance investments AEP Ohio expects to make during the plan will  
15 not be associated with a rider designed to track those investments. Nor will AEP Ohio  
16 have a nonbypassable rider for recovering plant closure costs. AEP Ohio's agreement to  
17 provide fixed base generation rates without such variable rate mechanisms is a significant  
18 compromise by the Company, and provides customers with clear stable price signals  
19 during the plan. The Stipulation does provide for a new Generation Resource Rider  
20 (GRR) which will provide for recovery of AEP Ohio's investments in new generation  
21 resources that will be dedicated to serving retail customers.

22 **Q. WHAT DO YOU MEAN WHEN YOU SAY THE STIPULATION INCREASED**  
23 **RISK ASSOCIATED WITH ENVIRONMENTAL OR OTHER OBLIGATIONS?**



1 A. As reported in the June 9, 2011 AEP press release, AEP disclosed the economic,  
2 operational and rate impacts associated with a series of regulations proposed by the U.S.  
3 Environmental Protection Agency (EPA) that the has proposed to further reduce coal-  
4 fueled power plant environmental impacts. According to analyses conducted by AEP's  
5 Generation, Corporate Planning & Budgeting, and Environmental Services organizations,  
6 the new rules will require the Company to invest \$6 billion to \$8 billion in capital to add  
7 additional environmental controls, upgrade existing controls and build new generation,  
8 and will result in the retirement of over 5,900 megawatts (MW) of coal-fired generating  
9 capacity. As a result of this Stipulation, the Company is agreeing to absorb its share of  
10 the costs of these future investments.

11 **Q. YOU INDICATE ABOVE THAT AEP OHIO IS WITHDRAWING ITS**  
12 **PROPOSED POLR CHARGES. HOW DOES THE STIPULATION MODIFY**  
13 **AEP OHIO'S PROPOSAL FOR PRICING SSO SERVICE FOR SHOPPING**  
14 **CUSTOMERS WHO RETURN TO SSO DURING THE ESP?**

15 A. Consistent with the elimination of the POLR charges, shopping customers who  
16 previously waived the POLR charge faced the risk of paying market rates if for some  
17 reason they had to return to the electric distribution utility. That risk and the associated  
18 decision to determine whether to take that risk are alleviated under the Stipulation. Those  
19 who return to the SSO will obtain SSO service at the applicable SSO rate, rather than at  
20 market prices, which AEP Ohio had proposed for this ESP. [Stip. IV.1.e.]

21 **Q. WITH REGARD TO SSO GENERATION SERVICE, WHAT BASE**  
22 **GENERATION RATES DOES THE STIPULATION AUTHORIZE AEP OHIO**  
23 **TO CHARGE DURING THE ESP?**

1 A. Automatic annual increases or decreases to the (non-fuel) bypassable base generation rate  
2 will be made as necessary to achieve an average rate of \$.0245/kWh starting in January  
3 of 2012, \$.0257/kWh in January of 2013, and \$.0272/kWh in January of 2014 to be in  
4 effect through May 31, 2015. This provision significantly improves rate stability and  
5 predictability for customers, while shifting risks to AEP Ohio.

6 Notably, with these automatic rate changes (which I am advised by counsel are  
7 being implemented under §4928.143(B)(2)(d), Ohio Rev. Code), the only other  
8 bypassable generation rates that change for customers during the ESP term prior to  
9 implementing auction-based SSO pricing is the Fuel Adjustment Clause (FAC) rate,  
10 which currently includes costs associated with the Alternative Energy Rider (AER).  
11 [Stip. IV.1.f.]

12 **Q. THE STIPULATION CONTAINS PROVISIONS REGARDING AEP OHIO'S**  
13 **CAPACITY PLAN, INCLUDING STEPS TO ACCELERATE DEVELOPMENT**  
14 **OF OHIO SHALE GAS RESOURCES. PLEASE DESCRIBE HOW THE**  
15 **STIPULATION WOULD IMPLEMENT THIS ASPECT OF THE CAPACITY**  
16 **PLAN.**

17 A. Pursuant to Paragraph IV.2.a of the Stipulation, AEP Ohio has committed to substantial  
18 fleet transformation and fuel diversification utilizing Ohio shale gas. In accordance with  
19 this key component of the Stipulation, which would not have been possible absent  
20 settlement, AEP Ohio will endeavor to enter into competitively priced long-term shale  
21 gas contracts for AEP Ohio generation plants with Ohio producers who commit to  
22 investment and employment growth in Ohio. Total annual volumes are projected to grow  
23 to as much as 60 billion cubic feet (BCF) annually, based upon anticipated consumption

1 by: a new combined cycle gas plant (Muskingum River Unit (MR) 6) (with a capacity of  
2 approximately 500 MW) that will replace MR 5, which will be retired; and the existing  
3 AEP Ohio gas-fueled generating units, Darby Units 1-6 and the Waterford Energy  
4 Center. The costs of the new MR 6 will be recovered, upon approval of a new generation  
5 resource recovery (GRR) rider. I am advised by counsel that the GRR is authorized by  
6 §4928.143(B)(2)(b) and (c), Ohio Rev. Code. AEP Ohio will file a plan with the  
7 Commission by the end of 2012 for retiring MR5 and constructing MR6. After a one-  
8 time up-front prudence review, the cost of the shale gas contracts for the existing AEP  
9 Ohio gas units will be recovered through the bypassable FAC during the term of the ESP  
10 for those non-dedicated generation assets; and through the GRR for the life of the facility  
11 for dedicated generation assets, such as MR-6. [Stip. IV.2.a.]

12 **Q. PLEASE DESCRIBE HOW THE STIPULATION PROVIDES SUPPORT FOR**  
13 **THE DEVELOPMENT OF ALTERNATIVE CAPACITY RESOURCES?**

14 A. Another key benefit to Ohio customers that we do not believe could have resulted from  
15 litigation is the Signatory parties' and AEP Ohio's agreement to pursue development of  
16 up to 350 MW, in total, of customer sited combined heat and power (CHP), waste energy  
17 recovery (WER) and distributed generation resources in its service territory, with the  
18 costs to be recovered through an appropriate rider. The details for pursuing this effort  
19 will be resolved in a separate proceeding before the Commission, and AEP Ohio has  
20 agreed to consult with the Ohio Environmental Council, the Ohio Energy Group, and the  
21 Ohio Manufacturers' Association in developing the program, including the cost recovery  
22 mechanism within 12-months of the Commission adopting the Stipulation. [Stip. IV.2.c.]

1 **Q. DOES THE STIPULATION ADDRESS THE MANNER IN WHICH THE**  
2 **SIGNIFICANTLY EXCESSIVE EARNINGS TEST WILL BE APPLIED TO AEP**  
3 **OHIO?**

4 A. Yes. Pursuant to the Stipulation the Signatory Parties have agreed that the plan is not  
5 likely to lead to significantly excessive earnings, and the SEET ROE threshold during the  
6 ESP will be 13.5% (calculated in a manner consistent with the Commission's order in  
7 Case No. 10-1261-EI-UNC). [Stip. IV.1.g.] Because the proposed ESP term is longer  
8 than three years, I am advised by counsel that a different SEET process applies under  
9 §4928.143(E), Ohio Rev. Code, whereby the Commission only applies the applicable  
10 ROE threshold twice during the ESP term: (i) an initial, up front application through a  
11 *pro forma* evaluation, and (ii) in the fourth year of the plan. Both applications of the  
12 SEET test should utilize the 13.5% ROE threshold per the Stipulation. Company witness  
13 Allen supports the up front *pro forma* earnings projection associated with the proposed  
14 ESP. The 13.5% SEET ROE threshold represents a substantial reduction from the level  
15 authorized by the Commission in its most recent SEET review proceeding for CSP  
16 (17.6%), and consequently represents a significant benefit for customers, worth as much  
17 as \$120 million (this calculation was provided to me by Company witness Allen).

18 **Q. DOES THE STIPULATION'S PROVISION REGARDING THE DISTRIBUTION**  
19 **INVESTMENT RIDER (DIR) BENEFIT CUSTOMERS THROUGH THE**  
20 **UPGRADING OF SERVICE TO HOSPITALS IN AEP OHIO'S SERVICE**  
21 **TERRITORY?**

22 A. In recognition of the critical importance of reliable electric supply to hospitals, AEP Ohio  
23 has committed to work with the Ohio Hospital Association to identify specific

1 distribution circuit that serve hospitals for targeted reliability improvements, subject to  
2 maximum investment commitments under the DIR of \$5 million per year during the term  
3 of the ESP. [Stip. IV.1.n.]

4 **Q. WHAT CONSIDERATION WILL BE GIVEN TO THE DEVELOPMENT OF A**  
5 **RATE DECOUPLING MECHANISM AS A RESULT OF THE STIPULATION?**

6 A. Certain customer groups have advocated for consideration of rate decoupling  
7 mechanisms in recent years. As part of the Stipulation, AEP Ohio has agreed to form an  
8 advisory group of interested Signatory Parties to discuss and explore a distribution rate  
9 decoupling mechanism, including rate design changes for non-demand metered  
10 customers. The decoupling advisory group will begin meeting within forty-five days  
11 after the Commission's adoption of the Stipulation. [Stip. IV.1.n.]

12 **Q. HOW DOES THE STIPULATION PROVIDE SUPPORT FOR THE**  
13 **PARTNERSHIP WITH OHIO AND THE OHIO GROWTH FUND**  
14 **INITIATIVES?**

15 A. AEP Ohio has agreed to provide funding for the PWO initiative of \$3 million annually  
16 for the benefit of low-income customers during the ESP term, provided that AEP Ohio's  
17 return on equity (ROE) exceeds 10% for the prior calendar year, and such funding will  
18 not be recoverable from customers. AEP Ohio agrees to collaborate with Staff for  
19 determining the uses of the PWO fund. [Stip. IV.1.u.]

20 In addition, AEP Ohio will provide funding for the Ohio Growth Fund (OGF)  
21 initiative of \$5 million annually for the benefit of economic development during the ESP  
22 term, provided that AEP Ohio's ROE exceeds 10% for the prior calendar year, and such  
23 funding will not be recoverable from customers. An advisory group of interested

1 Signatory Parties, including Staff, industrial customers and municipal corporations, will  
2 be established to assist in developing the framework and criteria for AEP Ohio funding  
3 under the OGF. An initial commitment from the OGF will be \$50,000 annually over the  
4 next three years for the Association of Independent Colleges and Universities of Ohio  
5 (AICUO) to utilize either for (i) scholarships in the area of alternative energy, or (ii) for  
6 alternative energy upgrades on its college campuses, as part of educational programs on  
7 energy efficiency/alternative energy. [Stip. IV.1.v.]

8 **Q. ARE THERE ADDITIONAL BENEFITS WHICH WOULD NOT HAVE BEEN**  
9 **ATTAINABLE IF THE PARTIES TO THE STIPULATION HAD CHOSEN TO**  
10 **LITIGATE?**

11 A. Yes. As detailed in the discussion of Company witness Allen, significant benefits have  
12 been achieved for customers not attainable through litigation in the concessions  
13 associated with this Stipulation regarding the distribution business. The details are  
14 spelled out in the Stipulation and discussed by Company witness Allen, but a notable  
15 example includes the Distribution Investment Rider (DIR) that will allow recovery of  
16 carrying costs on incremental distribution plant investment. The DIR will allow scaled  
17 increases for continued maintenance and improved reliability of AEP Ohio's distribution  
18 infrastructure, based on verified and audited capital investments. Investments aligned to  
19 Distribution Asset Management and Capacity Additions programs will be included in the  
20 DIR. These investments translate into additional reliability benefits for customers.

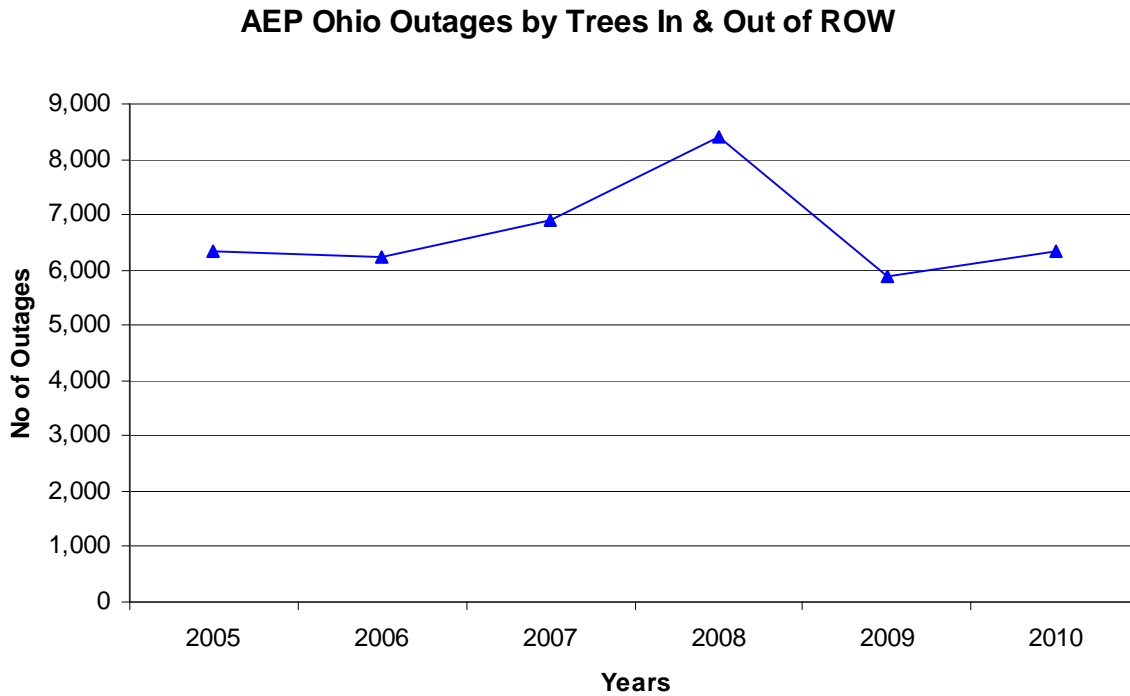
21 **Q. HOW DOES THE STIPULATION AFFECT THE ENHANCED SERVICE**  
22 **RELIABILITY RIDER?**

1 A. The signatory Parties have agreed with AEP Ohio that the Enhanced Service Reliability  
2 (ESR) Rider should continue in the manner AEP Ohio has proposed. [Stip. IV. 1.o.] The  
3 proposal was to continue the remaining two years of the five year program first proposed  
4 in the current ESP approved in Case Nos. 08-917-EL-SSO and 08-918-EL-SSO with an  
5 incremental amount above the current base level of O&M expense required to maintain  
6 the program going forward. The comprehensive Distribution Asset Management and  
7 Capacity Additions programs, the Vegetation Management programs and the use of  
8 advanced technologies, such as through the gridSMART<sup>®</sup> program, have been designed  
9 and implemented over the past several years to improve customer service and minimize  
10 the impact of service interruptions.

11 **Q. HAVE AEP OHIO CUSTOMERS EXPERIENCED ANY BENEFITS BY**  
12 **INCREASED SPENDING ON VEGETATION MANAGEMENT?**

13 A. Yes. Increased spending since initiation of the Enhanced Service Reliability Rider in the  
14 2008-2010 time periods has led to reductions in tree-caused outages, resulting in  
15 improved service reliability. Referring to Chart 1 below, after initiation of the Enhanced  
16 Service Reliability Rider in 2009, there was a decline in the number of outages caused by  
17 trees.

Chart 1



2

3 The Signatory Parties agree that recovery of costs under the Enhanced Service Reliability  
 4 Rider (ESR) should continue as proposed until the end of the Stipulation period. The  
 5 total baseline for base spending should be the same \$24,200,000 million agreed to with  
 6 the Staff when applying the first three years of the program. This component of the  
 7 Stipulation is expected to benefit customers by continuing to improve reliability due to  
 8 reduced tree related interruptions. [Stip.IV.1.o],

9 **Q. PLEASE DESCRIBE THE PROGRESS OF THE gridSMART<sup>®</sup> PROGRAM.**

10 A. In the Company's 2009-2011 ESP and the proposed 2012-2014 ESP cases, Company  
 11 witness Sloneker describes the details of gridSMART<sup>®</sup>– Phase 1 (Phase 1), which was  
 12 designed to explore the gridSMART<sup>®</sup> technologies, develop the communication  
 13 interfaces, and fine tune the details of the processes for operating the gridSMART<sup>®</sup>  
 14 system. The Stipulation implements the Signatory Parties' agreement to first complete



1 and review Phase 1 before submitting and investing in gridSMART<sup>®</sup>-Phase 2 (Phase 2)  
2 programs. Although AEP Ohio originally proposed having the gridSMART<sup>®</sup> program  
3 deployed system wide over a ten-year period, the Signatory Parties have agreed that  
4 AEP Ohio will not file a separate application to initiate Phase 2 and beyond for the  
5 gridSMART project until completion and review of Phase 1. [Stip. IV.1.h.]

6 **Q. WHAT IMPACT DOES THE STIPULATION HAVE ON THE PROPOSAL FOR**  
7 **AN EXPERIMENTAL PLUG-IN ELECTRIC VEHICLE TARIFF?**

8 A. The Signatory Parties agree that AEP Ohio may implement its proposed plug-in electric  
9 vehicle (PEV) tariff, but must absorb the cost of the proposed \$2500 allowance per  
10 customer for installation of a charging station and a time-of-use meter, and shall not  
11 collect those costs associated with this pilot offering from customers. [Stip. IV.1.i.]

12 **Q. HOW DO THESE COMMITMENTS REFLECTED IN THE STIPULATION**  
13 **BENEFIT AEP OHIO'S CUSTOMERS?**

14 A. There are several ways these commitments add value to Ohio residents and communities.  
15 The PWO fund has benefitted qualifying low-income customers through assistance in  
16 paying their electric bills, and it also has helped support food banks and United Way  
17 funded programs that provided targeted assistance to low income households in AEP  
18 Ohio's service territory. The OGF resources will be utilized to attract new businesses  
19 and provide economic development opportunities within the state. While AEP Ohio has  
20 proven its contribution and support of Ohio development and job growth, continued  
21 economic development success requires a collaborative effort among legislators, state  
22 and local leaders, and business developers across the state. Thus, an advisory group of  
23 Signatory Parties will be established to assist in developing a process for allocation of

1 OGF funds. Additionally, from the OGF, the annual \$50,000 commitment to fund either  
2 scholarships or projects related to energy efficiency/ alternative energy for Ohio higher  
3 education institutions. The continued commitment to maintaining vegetation and  
4 instituting the trim cycle will benefit residential customers susceptible to tree related  
5 outages. The agreement to delay the implementation of the next phase of the  
6 gridSMART<sup>®</sup> program to better understand the current data and the burden of  
7 establishing elements of the PEV tariff is a measured approach that will focus on  
8 understanding the customer's needs and motivations.

9 **Q. DOES THE STIPULATION SUPPORT PROGRAMS AND OPPORTUNITIES**  
10 **FOR THE COMMITMENT OF CUSTOMER-SITED RESOURCES, DESIGNED**  
11 **TO HELP AEP OHIO MEET ADVANCED ENERGY RESOURCE AND**  
12 **ENERGY EFFICIENCY AND PEAK DEMAND REDUCTION OBJECTIVES?**

13 A. Yes. Pursuant to the Stipulation, AEP Ohio has agreed to work with Signatory Parties to  
14 further develop programs and opportunities for the commitment of customer-sited  
15 resources and, in exchange for incentive payments to the customer or exemptions from  
16 applicable cost recovery mechanisms, in order to help meet AEP Ohio's advanced energy  
17 mandates under §4928.64, Ohio Rev. Code, and its energy efficiency and peak demand  
18 reduction mandates under §4928.66, Ohio Rev. Code. In addition, to advance the  
19 progress of state energy mandates, AEP Ohio also has committed to the City of Grove  
20 City and/or the City of Hilliard, in addition to any Commission approved financial  
21 incentives for LED traffic signals and street lighting, to develop a pilot program for: (i)  
22 municipally owned LED street lighting and (ii) municipally owned LED traffic signal  
23 conversion. AEP Ohio has committed to provide to each City for this pilot program an

1 amount not to exceed \$100,000, pursuant to cost recovery that AEP Ohio shall include in  
2 its 2012-2014 energy efficiency/peak demand reduction portfolio plan, to be filed with  
3 the PUCO under a separate application. This commitment benefits not only the residents  
4 of Grove City and Hilliard, but will provide meaningful data for future development of  
5 LED projects. [Stip. IV.1.w.]

6 **Q. DOES THE STIPULATION IN THIS PROCEEDING SATISFY EACH ASPECT**  
7 **OF THE THREE-PART TEST?**

8 A. For all of the reasons provided above, the Stipulation satisfies each aspect of that test.  
9  
10

11 **MARKET RATE OFFER (MRO) TEST (STIP. IV.7)**

12 **Q. DOES THE ESP, AS MODIFIED BY THE STIPULATION, PASS THE SO-**  
13 **CALLED MRO TEST?**

14 A. Yes. I have been advised by counsel that an application for an ESP should be approved if  
15 the Commission finds that the ESP, including its pricing and all other terms and  
16 conditions, is more favorable in the aggregate as compared to the expected results that a  
17 market rate offer under §4928.142, Ohio Rev. Code, would provide. As further  
18 demonstrated below, the ESP being recommended through the provisions of the  
19 Stipulation, including its pricing and all other terms and conditions, is more favorable in  
20 the aggregate as compared to the expected results of an MRO.

21 **Q. PLEASE EXPLAIN.**

22 A. As I understand it, there are three aspects to the MRO test. The first aspect is the  
23 comparison of the ESP pricing to the expected results from an MRO. Company witness

1 Thomas provides this comparison, and her analysis shows that the pricing of the  
2 stipulated ESP is more favorable to customers in the aggregate, compared to what is  
3 expected to result from an MRO. Ms. Thomas has estimated that the aggregate ESP price  
4 benefit, calculated on a weighted average basis over the ESP, amounts to \$1.67/MWH.  
5 Company witness Allen has quantified the present value of this pricing benefit, for non-  
6 shopping customers, to be \$130 million.

7 The next aspect of the MRO test involves evaluating the other, non-price, benefits  
8 that result from the ESP that would not be available under the MRO option. In addition  
9 to quantifying the value of the pricing advantage for non-shopping customers, Company  
10 witness Allen also quantifies the values of other non-price benefits. He concludes that  
11 the quantifiable price and non-price benefits exceed \$1.1 billion.

12 The third aspect of the test considers benefits that are not readily quantified yet  
13 are nevertheless of significant value. There are a number of such benefits that result from  
14 the stipulated ESP, which I describe below.

15 All of these factors, taken together, confirm that the stipulated ESP is more  
16 favorable in the aggregate as compared to the expected results under an MRO.

17 **Q. WITH REGARD TO THE SECOND ASPECT OF THE MRO TEST, WHAT**  
18 **ADDITIONAL QUANTIFIABLE NON-PRICE BENEFITS DOES THE**  
19 **STIPULATION PROVIDE FOR CUSTOMERS AND STAKEHOLDERS, WHICH**  
20 **WOULD NOT BE EXPECTED TO RESULT FROM AN MRO?**

21 A. In addition to the \$130 million of pricing benefits that the stipulated ESP provides for  
22 non-shopping customers (referenced above), there are a number of other substantial  
23 quantifiable financial benefits that result from the stipulated ESP, compared to what

1 would result from an MRO. For example, the Stipulation provides for a substantially  
2 reduced carrying cost on the unamortized balance of deferred fuel costs to be recovered  
3 during the seven-year period 2012-2018 through the Phase-In Recovery Rider. That  
4 reduction is a consequence of AEP Ohio's agreement to limit the carrying cost to a long-  
5 term debt interest rate, instead of the weighted average cost of capital that included a cost  
6 of equity component that the Commission's orders in the prior ESP proceeding authorized  
7 for the seven-year amortization and recovery period. [Stip. IV.6.] Mr. Allen has  
8 calculated (in Exhibit WAA-4) that this provision reduces carrying charges for which  
9 customers are responsible by \$35.2 million during 2012 and by \$153.4 million over the  
10 over the seven-year recovery period (2012-2018). On a net present value basis Mr. Allen  
11 calculated that this benefit is worth \$104 million over the seven-year period. In addition,  
12 Mr. Allen has estimated that the benefit of discounting the price of capacity to be  
13 provided to CRES providers during the ESP in order to encourage shopping has a present  
14 value of \$856 million. Finally, Mr. Allen has estimated that the commitments to provide,  
15 annually, \$3 million for the Partnership with Ohio and \$5 million for the Ohio Growth  
16 Fund initiatives provide, respectively, present value benefits of \$10 million and \$17  
17 million that would not be available through an MRO.

18 I should note that in certain respects these benefits of the Stipulation, are not  
19 contained in a specific provision included within the stipulated ESP. However, each of  
20 them is directly tied to the ESP. Without agreement to the provisions of the Stipulation,  
21 AEP Ohio would not have agreed to any of them. Accordingly, it is appropriate to  
22 include each of them among the financial benefits of the ESP that would not be possible  
23 through an MRO.

1 **Q. WHAT IS THE TOTAL AMOUNT OF QUANTIFIABLE BENEFITS,**  
2 **INCLUDING THE PRICE AND NON-PRICE BENEFITS, THAT RESULTS**  
3 **FROM AN ANALYSIS OF THE FIRST TWO ASPECTS OF THE MRO TEST?**

4 A. In total, Company witness Allen has calculated that the quantifiable price and non-price  
5 financial benefits that result from the stipulated ESP, compared to what would be  
6 expected to result from an MRO, amount to more than \$1.1 billion.

7 **Q. WHAT BENEFITS, NOT AS READILY QUANTIFIABLE IN TERMS OF**  
8 **FINANCIAL BENEFITS, DOES THE STIPULATED ESP PROVIDE TO**  
9 **CUSTOMERS, COMPARED TO WHAT WOULD RESULT FROM AN MRO?**

10 A. The third aspect of the MRO test, which must be included in the evaluation of whether  
11 the ESP in the aggregate is more beneficial than an MRO, is an assessment of the more  
12 qualitative benefits of the ESP. There are a number of such benefits that the stipulated  
13 ESP provides, compared to what an MRO would provide, and they are significant. For  
14 example, for those customers (and marketers and suppliers) that want market-based  
15 generation prices sooner, rather than later, the ESP provides an earlier transition to fully  
16 market-based prices (about three-and-a-half years) than would be possible through an  
17 MRO, which requires a significantly longer period for the transition (at least five years).  
18 Although not so readily quantifiable as other benefits, AEP Ohio's agreement to eliminate  
19 POLR charges that, in large part, are nonbypassable, is a significant benefit to customers.  
20 In addition, as a result of the Stipulation, shopping customers who return during the new  
21 ESP, who waived POLR charges while away, may return at the SSO price, as opposed to  
22 being subject to market-based pricing for their SSO service upon return. AEP Ohio's  
23 commitment to pursue a distribution decoupling mechanism and alternative customer-

1 sited generation resources are yet additional benefits not achievable through the MRO  
2 alternative. Furthermore, under an MRO, future environmental costs would be explicitly  
3 recovered from customers, yet this stipulated ESP has no such cost recovery mechanism.  
4 In addition, through the Stipulation's fixed non-fuel generation rates, customers will have  
5 known rate certainty over the transition period. AEP Ohio, on the other hand, faces the  
6 exposure to the risk of cost increases over this period which will have to be managed.

7 **Q. IS THE ESP, INCLUDING ITS PRICING AND ALL OTHER TERMS AND**  
8 **CONDITIONS, MORE FAVORABLE IN THE AGGREGATE AS COMPARED**  
9 **TO THE EXPECTED RESULTS OF AN MRO?**

10 A. Yes. The ESP that results from the Stipulation is substantially more favorable than an  
11 MRO, in the aggregate, with regard to its pricing, its other quantifiable benefits, and its  
12 other less-quantifiable benefits.

13  
14 **MERGER APPROVAL (STIP. IV.3)**

15 **Q. IN CASE NO. 10-2376-EL-UNC, IN ITS FEBRUARY 9, 2011 ENTRY, THE**  
16 **COMMISSION HELD THAT A REVIEW OF THE MERGER OF CSP AND**  
17 **OPCO "IS NECESSARY TO ENSURE THAT THE MERGER WILL PROMOTE**  
18 **THE PUBLIC INTEREST AND NOT ADVERSELY AFFECT ANY CLASS OF**  
19 **CSP OR OPCO CUSTOMER WITHIN THE COMMISSION'S JURISDICTION."**  
20 **WILL THE MERGER OF CSP AND OPCO PROMOTE THE PUBLIC**  
21 **INTEREST?**

22 A. Yes, it will.

1 **Q. PLEASE EXPLAIN HOW THE MERGER OF CSP AND OPCO WILL**  
2 **PROMOTE THE PUBLIC INTEREST.**

3 A. The merger will promote the public interest in several ways. First, it will eliminate the  
4 need to keep two separate sets of records and prepare two separate sets of audited annual  
5 financial statements, tax returns, and other financial and regulatory reports. This will  
6 reduce the AEP Ohio's administrative costs and the annual fees paid to independent  
7 auditors. Second, the merger will lessen the burden on the Commission by eliminating  
8 the need to file separate regulatory filings for both CSP and OPCo. Third, the merger  
9 should reduce the number of bond issuances, which would reduce the merged Company's  
10 rating agency and internal labor expense. Fourth, a larger, merged Company should be  
11 more flexible and may be able to more efficiently meet Ohio's advanced energy portfolio  
12 standards, Ohio's energy efficiency and peak demand reduction requirements, and current  
13 and future mandates for environmental controls. Fifth, the merger will provide a larger  
14 customer base and scale, which will reduce barriers to the deployment of new  
15 technologies and to conducting research and development projects.

16 **Q. WILL THE MERGER OF CSP AND OPCO ADVERSELY AFFECT ANY CLASS**  
17 **OF CSP OR OPCO CUSTOMER?**

18 A. No, it will not. The merger of CSP into OPCo will have no detrimental impact on the  
19 adequacy and reliability of the service that CSP's and OPCo's customers receive. All  
20 existing pre-merger regulatory obligations of CSP and OPCo under Ohio law, such as  
21 their obligations to comply with the Commission's electric service and safety standards,  
22 and each Company's commitments to meet those obligations, will be maintained after the  
23 merger, unless and until such obligations are modified in accordance with Ohio law.



1 And, the merger of CSP and OPCo will have no independent effect on the distribution  
2 rates charged to CSP and OPCo’s customers, either. After the merger, OPCo will  
3 continue to provide retail electric services to customers within the pre-merger certified  
4 territories of CSP and OPCo in accordance with the distribution rates, terms, and  
5 conditions that were in effect for CSP and OPCo prior to the merger through 2011. CSP  
6 and OPCo’s transmission rates will be consolidated in January 2012, however, as will  
7 CSP and OPCo’s generation rates.

8 **INDEX TO THE STIPULATION'S PROVISIONS**

9 **Q. PLEASE EXPLAIN WHICH WITNESS FOR AEP OHIO WITNESS IS**  
10 **PRIMARILY RESPONSIBLE FOR EXPLAINING AND SUPPORTING THE**  
11 **PROVISIONS OF THE STIPULATION.**

12 A. Below is an index that explains which Company witness is responsible for explaining  
13 each of the Stipulation's provisions.

14  
15 [THIS SPACE INTENTIONALLY LEFT BLANK]

1 **Table 2: Witnesses for the September 7, 2011 Stipulation and Recommendation**

<b>Witness</b>	<b>General Subject Area</b>	<b>Section Supported</b>
Joseph Hamrock	General Policy Witness Stipulation Three-Part Test MRO Test in the Aggregate Merger Approval Non-fuel g increases, gridSMART, Plug-In Electric vehicle (PEV) pilot	<ul style="list-style-type: none"> <li>• Stipulation Paragraph IV.1.a.</li> <li>• Stipulation Paragraph IV.1.e. and f.</li> <li>• Stipulation Paragraph IV.1.h. and i.</li> <li>• Stipulation Paragraph IV.1.u.,v., and w.</li> <li>• Stipulation Paragraph IV.2.a.1.</li> <li>• Stipulation Paragraph IV.2.c</li> <li>• Stipulation Paragraph IV.3.</li> </ul>
Rich Munczinski	Capacity base charge and Pool modification/termination Securitization	<ul style="list-style-type: none"> <li>• Stipulation Paragraph IV.1.q.</li> <li>• Stipulation Paragraph IV.1.t.</li> <li>• Stipulation Paragraph IV.2.b</li> <li>• Stipulation Paragraph IV.5.</li> </ul>
William Allen	MRO Test Quantification Generation Resource Rider (GRR) Fuel Adjustment Clause (FAC) Distribution Investment Rider (DIR) Shopping Rules Phase-In Recovery Rider (PIRR)/Securitization	<ul style="list-style-type: none"> <li>• Stipulation Paragraph IV.1.d.</li> <li>• Stipulation Paragraph IV.1.g.</li> <li>• Stipulation Paragraph IV.1.m., n.,o., p.</li> <li>• Stipulation Paragraph IV.2.a.2.</li> <li>• Stipulation Paragraph IV.2.b.2. and 3.</li> <li>• Stipulation Paragraph IV.2.d.</li> <li>• Stipulation Paragraph IV.6.</li> </ul>
Peggy Simmons	Timber Road and Turning Pont	<ul style="list-style-type: none"> <li>• Stipulation Paragraph IV.1.j.</li> <li>•</li> </ul>
Dr. Chantale LaCasse	Competitive Bidding Process	<ul style="list-style-type: none"> <li>• Stipulation Paragraph IV.1.r.</li> <li>• Stipulation Paragraph IV.1.t.</li> </ul>
Kelly Pearce	Cost-Based Capacity Charge	<ul style="list-style-type: none"> <li>• Stipulation Paragraph IV.2.b.1</li> </ul>
David Roush	Tariffs and Rate Design for Market Transition Rider (MTR), Green Power Portfolio Rider (GPPR), Alternative Energy Rider (AER) Enhanced Service Reliability Rider (ESR)	<ul style="list-style-type: none"> <li>• Stipulation Paragraph IV.1.b. and c.</li> <li>• Stipulation Paragraph IV.1.k and l</li> <li>• Stipulation Paragraph IV.1.o.</li> <li>• Stipulation Paragraph IV.1.r. and s.</li> <li>• Stipulation Paragraph IV.4.</li> </ul>
Laura Thomas	MRO Price Test	<ul style="list-style-type: none"> <li>• Stipulation Paragraph IV.7</li> </ul>

2

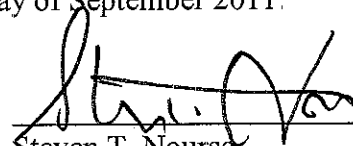
3 **CONCLUSION**

4 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

5 A. Yes.

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the testimony of Joseph Hamrock was served on the persons stated below via electronic mail, this 13<sup>th</sup> day of September 2011.

  
\_\_\_\_\_  
Steven T. Nourse

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Summary: Testimony Testimony of Joseph Hamrock electronically filed by Mr. Steven T Nourse on behalf of American Electric Power Service Corporation