

FILE

COMPANY EX. NO. _____

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)
Columbus Southern Power Company and)
Ohio Power Company, Individually and, if) Case No. 11-351-EL-AIR
Their Proposed Merger is Approved, as a) Case No. 11-352-EL-AIR
Merged Company (collectively, AEP Ohio))
for an Increase in Electric Distribution Rates)

In the Matter of the Application of)
Columbus Southern Power Company and)
Ohio Power Company, Individually and, if) Case No. 11-353-EL-ATA
Their Proposed Merger is Approved, as a) Case No. 11-354-EL-ATA
Merged Company (collectively AEP Ohio))
for Tariff Approval)

In the Matter of the Application of)
Columbus Southern Power Company and)
Ohio Power Company, Individually and, if) Case No. 11-356-EL-AAM
Their Proposed Merger is Approved, as a) Case No. 11-358-EL-AAM
Merged Company (collectively AEP Ohio))
for Approval to Change Accounting Methods)

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**PREFILED SUPPLEMENTAL DIRECT TESTIMONY
IN SUPPORT OF OBJECTIONS TO THE STAFF REPORTS
OF THOMAS L. KIRKPATRICK
ON BEHALF OF
COLUMBUS SOUTHERN POWER COMPANY
AND
OHIO POWER COMPANY**

- X Management Policies, Practices & Organizations
- Operating Income
- Rate Base
- Allocations
- Rate of Return
- Rates and Tariffs
- X Other

Filed October 24th, 2011

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IN SUPPORT OF OBJECTIONS TO THE STAFF REPORTS OF
THOMAS L. KIRKPATRICK

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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
SUPPLEMENTAL DIRECT TESTIMONY IN SUPPORT OF OBJECTIONS TO THE
STAFF REPORTS OF THOMAS L. KIRKPATRICK ON BEHALF OF
COLUMBUS SOUTHERN POWER COMPANY
AND
OHIO POWER COMPANY**

I. PERSONAL DATA

1
2 **Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

3 A. My name is Thomas L. Kirkpatrick. My business address is 850 Tech Center Drive,
4 Gahanna, OH 43230.

5 **Q. ARE YOU THE SAME THOMAS L. KIRKPATRICK THAT PREVIOUSLY**
6 **FILED DIRECT TESTIMONY FOR CASE NOS. 11-351-EL-AIR AND 11-352-**
7 **EL-AIR?**

8 A. Yes, I am.

II. PURPOSE OF TESTIMONY

9
10 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN**
11 **SUPPORT OF OBJECTIONS TO THE STAFF REPORTS?**

12 A. The purpose of my supplemental testimony in support of the objections to the Staff
13 Reports is to address Staff's recommendations regarding the Storm Damage
14 Recovery Mechanism base amount, adjustments to the distribution base O&M, and
15 additional recommendations by the Staff.

16 My testimony supports the objections filed by AEP Ohio on October 17, 2011
as shown below:

<u>Objection Number</u>	<u>Objection Description</u>
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1	10	Budget Adjustment
2	17	Storm Damage Adjustment
3	18	Storm Damage Adjustment
4	39	Procedures for Project Review
5	40	Procedures for Project Review

6 **III. SUPPLEMENTAL TESTIMONY**

7 **Q. DOES THE COMPANY AGREE WITH THE BASE MAJOR STORM**
8 **DAMAGE LEVELS THAT THE STAFF RECOMMENDS IN THESE**
9 **DISTRIBUTION BASE CASE STAFF REPORTS?**

10 A. No. The Staff Reports recommend reducing the storm activity by \$4.6 million in
11 expense in CSP and \$3.45 million for Ohio Power, based on a new base line that
12 reflects numerous changes in the calculation of the historic average from what the
13 Company proposed. In the Staff Reports the five-year history was first revised by
14 eliminating 2005 and reflecting 2010, and a decrease in the expense was made to
15 reflect labor that would have been incurred anyway. Additionally, the Staff Reports
16 properly remove Hurricane Ike, but also recommend the removal of 2009 activity for
17 both Companies and the removal of 2007 activity for CSP. These changes do not
18 accurately reflect the average storm costs incurred by the Companies.

19 **Q. WHY DOES THE COMPANY DISAGREE WITH THE BASE THAT STAFF**
20 **RECOMMENDS?**

21 A. While updating the five year average to 2006-2010 (thus reflecting the most recent
22 five-year period) is reasonable, the Company believes that Staff's adjustments to
23 remove some year's activity is arbitrary and unreasonable. Removing a one-time

1 occurrence from a population that represents an outlier is a reasonable adjustment;
2 removing an entire year is not. A five-year historic average, unadjusted except for
3 the removal of Hurricane Ike, is used to develop the base line average. While no-one
4 can accurately estimate the major storms for one year, a reasonable expectation can
5 be formed based on averages. Therefore, adjustments to remove years because they
6 are high or low does not serve to develop a realistic average of storm activity.

7 **Q. WHAT IS THE BASIS FOR THE STAFF RECOMMENDATION OF THE**
8 **LOWER AVERAGE RECOMMENDED?**

9 A. Staff cites to the truncated historical view of expenses, however in the initial
10 testimony of Staff witness Hecker in the ESP II proceedings he opines that the
11 activity supported by the Enhanced Service Reliability Rider ("ESRR") should cause
12 a decrease in major storm damage, due to lower outage incidences from trees inside
13 of Rights-of-Way ("ROW"), thus justifying a lower base. However, the Company's
14 experience, which is corroborated by industry experience, shows that major storm
15 costs and damage are driven largely by trees from outside of the ROW that are not
16 directly controlled by the Companies as part of the aggressive ESRR vegetation
17 program. The Company does not anticipate any significant impact on the cost of
18 major storms from the ESRR initiative.

19 **Q. WHAT IS THE NEW BASIS THAT THE COMPANIES RECOMMEND?**

20 A. As discussed in the testimony of Company witness Roush, the Companies believe the
21 proper basis is \$8.0 million.

22 **Q. ARE THERE OTHER FACTS THAT SUPPORT THIS RECOMMENDED**
23 **BASIS AS APPROPRIATE?**

1 A. Yes. A review of spending for major storms during the test year does not support the
2 Staff's lower base. During the first half of 2011, the Company has already spent
3 \$7.9M (\$3.8M for CSP and \$4.1M for OP) for major storms, which is substantially
4 more than the \$5.1 million recommended by Staff for an entire year. It is not
5 unreasonable to expect the Company will exceed the proposed amount of \$8.0 million
6 for 2011. Regardless, the Company still believes the \$8.0M is an appropriate level
7 for the Storm Damage Recovery Mechanism base amount. Additionally, along with
8 this level, the Company also believes that this base amount, in conjunction with a
9 deferral accounting mechanism, as discussed in the direct testimony of Company
10 witness Mitchell, represents the best way to balance the needs of the Companies to
11 quickly recover from the impact of major storms without suffering undue financial
12 hardship, while at the same time addressing Staff's concerns regarding lower
13 spending during long periods without significant major storm activity. To the extent
14 the Commission should decide to award the Company a lower base, the more urgent
15 the need for this mechanism to avoid the impact of major storms diverting O&M
16 dollars needed for normal system operation and maintenance.

17 **Q. WILL THE DISTRIBUTION O&M LEVELS RECOMMENDED BY STAFF**
18 **MEET THE O&M NEEDS OF THE COMPANY?**

19 A. No, the distribution O&M adjustments recommended by Staff will not meet the O&M
20 needs of the Company. The net effect of all of the adjustments recommended by
21 Staff reduces the overall Company O&M from today's actuals, and does not provide
22 the needed O&M recommended by the Company on a going-forward basis. On page
23 27 of my direct testimony, I discuss the need for approximately \$15 million in

1 additional O&M funding. The \$15M will be split evenly between CSP and OP. This
2 additional O&M is needed to support meter reading, an enhanced circuit inspection
3 program intended to identify distribution equipment that is likely to fail before the
4 actual failure occurs, expansion of existing maintenance programs to repair the
5 equipment found to be defective, and asset renewal programs necessary to improve
6 reliability. While the implementation of the four-year vegetation trim cycle in the
7 ongoing ESRR is reducing outages related to tree contact in the right-of-way, there
8 are nearly an equal number of outages related to equipment failure. See Chart 1 on
9 page 4 of my direct testimony for the detail on outage causes. The proposed
10 adjustment by the Company would maintain or improve system performance, while a
11 reduction in O&M funding would have a negative impact on system performance.

12 **Q. DO YOU SUPPORT THE ADDITIONAL REPORTING AND ANALYSIS**
13 **RECOMMENDATIONS BY STAFF?**

14 A. No, I do not. Staff is recommending additional routine reporting and systematic
15 analyses of the following AEP Ohio data:

- 16 1) Number of revisions by CI/CPP;
- 17 2) Dollar amount of each revision;
- 18 3) Offset source for each revision (and impact on CIs which fund the offset);
- 19 4) Cause of In-service/completion delays for each revision;
- 20 5) Cause of In-service/completion delays beyond initially projected in-service date;
- 21 6) Timeliness of revision requests (time between when revision threshold is reached
22 or delay known and request for revision made); and

1 7) Variances between date of requests to close CI/CPPs and submittal of CI/CPP last
2 work orders.

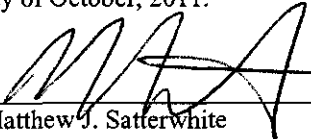
3 The Company routinely reviews processes to optimize productivity and utilization of
4 resources to comply with the reporting requirements of Sarbanes-Oxley and to keep
5 administrative costs as low as possible. Staff has not provided any support materials
6 or analysis to demonstrate how these changes will benefit or improve service to
7 customers, or the impact these changes will have on the O&M budget. Additionally,
8 Staff has not recommended any additional O&M funding to support these changes.
9 Without further study to understand the value to customers and the impact to the
10 O&M budget, these changes are not supported.

11 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY IN**
12 **SUPPORT OF OBJECTIONS TO THE STAFF REPORTS?**

13 **A. Yes, it does.**

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Prefiled Supplemental Direct Testimony In Support of Objections to the Staff Reports of Thomas L. Kirkpatrick on behalf of Columbus Southern Power Company and Ohio Power Company has been served upon the below-named counsel via First Class mail, postage prepaid, this 24th day of October, 2011.


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