

FILE

PUCO EXHIBIT FILING

Date of Hearing: 10/14/11

Case No. 10-2376-EL-UNC et al.

PUCO Case Caption: \_\_\_\_\_

Columbus Southern Power

Ohio Power Company

List of exhibits being filed:

OCC Ex. 1

IEU Ex. 8

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Date Submitted: 10/18/11

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

3	In the Matter of the	:	
4	Application of Ohio Power	:	
5	Company and Columbus	:	
6	Southern Power	:	
7	Company for Authority to	:	Case No. 10-2376-EL-UNC
8	Merge and Related	:	
9	Approvals.	:	
10	In the Matter of the	:	
11	Application of Columbus	:	
12	Southern Power Company	:	
13	and Ohio Power Company	:	
14	for Authority to Establish:	:	
15	a Standard Service Offer	:	Case No. 11-346-EL-SSO
16	Pursuant to \$4928.143,	:	Case No. 11-348-EL-SSO
17	Ohio Rev. Code, in the	:	
18	Form of an Electric	:	
19	Security Plan.	:	
20	In the Matter of the	:	
21	Application of Columbus	:	
22	Southern Power Company	:	Case No. 11-349-EL-AAM
23	and Ohio Power Company	:	Case No. 11-350-EL-AAM
24	for Approval of Certain	:	
25	Accounting Authority.	:	
26	In the Matter of the	:	
27	Application of Columbus	:	
28	Southern Power Company to	:	Case No. 10-343-EL-ATA
29	Amend its Emergency	:	
30	Curtailment Service	:	
31	Riders.	:	
32	In the Matter of the	:	
33	Application of Ohio Power	:	
34	Company to Amend its	:	Case No. 10-344-EL-ATA
35	Emergency Curtailment	:	
36	Service Riders.	:	
37	In the Matter of the	:	
38	Commission Review of the	:	
39	Capacity Charges of Ohio	:	Case No. 10-2929-EL-UNC
40	Power Company and Columbus:	:	
41	Southern Power Company.	:	

1471

1 In the Matter of the :  
Application of Columbus :  
2 Southern Power Company for:  
Approval of a Mechanism to: Case No. 11-4920-EL-RDR  
3 Recover Deferred Fuel :  
Costs Ordered Under Ohio :  
4 Revised Code 4928.144. :  
:

5 In the Matter of the :  
Application of Ohio Power :  
6 Company for Approval of a :  
Mechanism to Recover : Case No. 11-4921-EL-RDR  
7 Deferred Fuel Costs :  
Ordered Under Ohio Revised:  
8 Code 4928.144. :  
:

- - -

## PROCEEDINGS

11 before Ms. Greta See and Mr. Jonathan Tauber,  
12 Attorney Examiners, at the Public Utilities  
13 Commission of Ohio, 180 East Broad Street, Room 11-A,  
14 Columbus, Ohio, called at 9 a.m. on Friday,  
15 October 14, 2011.

- - -

## VOLUME VIII

- - -

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22 222 East Town Street, Second Floor  
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23 (614) 224-9481 - (800) 223-9481  
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- - -

**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	)	Case No. 10-2376-EL-UNC
and Related Approvals.	)	
In the Matter of the Application of Columbus	)	
Southern Power Company and Ohio Power	)	
Company for Authority to Establish a	)	Case No. 11-346-EL-SSO
Standard Service Offer Pursuant to 4928.143,	)	Case No. 11-348-EL-SSO
Ohio Rev. Code In the form of an Electric	)	
Security Plan.	)	
In the Matter of the Application of Columbus	)	
Southern Power Company and Ohio Power	)	Case No. 11-349-EL-AAM
Company for Approval of Certain	)	Case No. 11-350-EL-AAM
Accounting Authority.	)	
In the Matter of the Application of Columbus	)	
Southern Power Company to Amend its	)	Case No. 10-343-EL-ATA
Emergency Curtailment Service Riders.	)	
In the Matter of the Application of Ohio	)	
Power Company to Amend its Emergency	)	Case No. 10-344-EL-ATA
Curtailment Service Riders.	)	
In the Matter of the Commission Review of	)	
the Capacity Charges of Ohio Power	)	
Company and Columbus Southern Power	)	Case No. 10-2929-EL-UNC
Company.	)	
In the Matter of the Application of	)	
Columbus Southern Power Company for	)	
Approval of a Mechanism to Recover	)	Case No. 11-4920-EL-RDR
Deferred Fuel Costs Ordered Under Ohio	)	
Revised Code 4928.144.	)	
In the Matter of the Application of Ohio	)	
Power Company for Approval of a	)	
Mechanism to Recover Deferred Fuel Costs	)	Case No. 11-4921-EL-RDR
Ordered Under Ohio Revised Code	)	
4928.144.	)	

**REVISED  
DIRECT TESTIMONY  
OF  
DANIEL J. DUANN, Ph.D. CRRA  
IN OPPOSITION OF THE STIPULATION AND RECOMMENDATION**

**On Behalf of  
The Office of the Ohio Consumers' Counsel  
10 West Broad Street, Suite 1800  
Columbus, Ohio 43215-3485  
(614) 466-8574**

***October 12 2011***

## **LIST OF ATTACHMENTS**

<b>Attachment DJD-A</b>	<b>Estimations of Embedded Environmental Carrying Charges</b>
<b>Attachment DJD-B</b>	<b>Estimate of Revenues Collected Under Base Generation Rate</b>
<b>Attachment DJD-C</b>	<b>Estimate of Revenues Collected Under POLR Charge Rider</b>
<b>Attachment DJD-D</b>	<b>Estimate of Revenues Collected (Excluding Carrying Cost</b>
<b>Attachment DJD-E</b>	<b>Remand-Revised 2012 Rates Before ESP and Summary</b>
<b>Attachment DJD-F</b>	<b>Summary of Stipulated Base Generation Rates Increase</b>
<b>Attachment DJD-G</b>	<b>Summary of Stipulated Total Generation Rates Increase</b>
<b>Attachment DJD-H</b>	<b>Summary of Stipulated Total Rates Increase</b>
<b>Attachment DJD-I</b>	<b>Share of Total Revenue Increase by Customer Class</b>
<b>Attachment DJD-J</b>	<b>Revised Summary Comparison of ESP and MRO Generation Rates</b>
<b>Attachment DJD-K</b>	<b>Total Revenue Increases by Customer Class</b>

*Revised Direct Testimony of Daniel J. Duann, Ph.D. CRRA  
In Opposition of the Stipulation and Recommendation  
On Behalf of the Office of the Ohio Consumers' Counsel  
PUCO Case Nos. 11-346-EL-SSO et al.*

1 **Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.**

2 **A1.** My name is Daniel J. Duann. My business address is 10 West Broad Street, Suite  
3 1800, Columbus, Ohio, 43215-3485. I am a Senior Regulatory Analyst with the  
4 Office of the Ohio Consumers' Counsel ("OCC").  
5

6 **Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
7 **PROFESSIONAL EXPERIENCE.**

8 **A2.** I received my Ph.D. degree in public policy analysis from the Wharton School,  
9 University of Pennsylvania. I also have a M.S. degree in energy management and  
10 policy from the University of Pennsylvania and a M.A. degree in economics from  
11 the University of Kansas. I completed my undergraduate study in business  
12 administration at the National Taiwan University, Taiwan, Republic of China. I  
13 am a Certified Rate of Return Analyst conferred by the Society of Utility and  
14 Regulatory Financial Analysts in April 2011.  
15

16 I was a Utility Examiner II in the Forecasting Section of the Ohio Division of  
17 Energy, Ohio Department of Development, from 1983 to 1985. From 1985 to  
18 1986, I was an economist with the Center of Health Policy Research at the  
19 American Medical Association in Chicago. In 1986, I joined the Illinois  
20 Commerce Commission as a senior economist in its Policy Analysis and Research  
21 Division. I was employed as a senior institute economist at the National  
22 Regulatory Research Institute ("NRRRI") at The Ohio State University from 1987

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1 to 1995. My work at NRRI involved many areas of utility regulation and energy  
2 policy. I was an independent business consultant from 1996 to 2007.

3  
4 I joined the OCC in January 2008 as a senior regulatory analyst. My  
5 responsibilities are to assist OCC in participating in various regulatory  
6 proceedings that include rate cases, alternative regulation, cost recovery filings,  
7 and service reliability by Ohio utilities. In particular, I was part of the case team  
8 that analyzed the first Electric Security Plan ("ESP") filing by Columbus  
9 Southern Power Company ("CSP") and Ohio Power Company ("OPC")  
10 (collectively, "AEP Ohio" or "Companies") in 2008.<sup>1</sup> I also conducted analysis  
11 and testified in AEP Ohio's 2009 Fuel Adjustment Clause Audit proceeding (Case  
12 Nos. 09-872-EL-FAC and 09-873-EL-FAC). I have submitted direct testimonies  
13 in the AEP Ohio Remand proceeding and in this proceeding addressing the  
14 Companies' ESP plan filed on January 27, 2011.<sup>2</sup>

15  
16 **Q3. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**  
17 **PUBLIC UTILITIES COMMISSION OF OHIO OR OTHER AGENCIES?**

18 **A3.** Yes. I have submitted expert testimony on behalf of OCC before the Public  
19 Utilities Commission of Ohio ("PUCO" or "Commission") in a number of cases  
20 involving electric, gas, and water companies. I have also testified before the Ohio

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<sup>1</sup> PUCO Case Nos. 08-917-EL-SSO et al.

<sup>2</sup> PUCO Case Nos. 11-346-EL-SSO et al.



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1 Division of Energy, the Illinois Commerce Commission, and the Senate  
2 Committee on Energy and Public Utilities of the California Legislature.

3  
4 ***Q4. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF***  
5 ***YOUR TESTIMONY?***

6 ***A4.*** In addition to those documents that I identified in my earlier testimony filed on  
7 July 25, 2011 in this proceeding, I have also reviewed certain documents related  
8 to the Stipulation and Recommendation ("Stipulation") filed in this proceeding on  
9 September 7, 2011. Specifically, I reviewed the Stipulation and its attachments,  
10 the supporting testimonies filed on September 13, 2011, the work papers related  
11 to the supporting testimonies, and related discovery pertaining to the Stipulation.

12  
13 ***Q5. WHAT ARE YOUR QUALIFICATIONS TO ADDRESS THE ISSUES***  
14 ***DISCUSSED IN YOUR TESTIMONY?***

15 ***A5.*** I am a trained economist with over twenty years of experience in studying and  
16 analyzing the regulation of electric utilities in the United States. I am familiar  
17 with the major issues related to the ESP filed by AEP Ohio in January 2011 and  
18 the Stipulation filed in September 2011. I have participated and testified in  
19 several cases involving AEP Ohio before the PUCO in the last three years and  
20 some of the issues are closely related to the issues in this proceeding.<sup>3</sup>

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<sup>3</sup> They include, but are not limited to, PUCO Case Nos. 11-155-EL-RDR, 11-1337-EL-RDR, 10-163-EL-RDR, 11-1361-EL-RDR, 09-756-EL-ESS, 09-786-EL-UNC, and 10-1261-EL-UNC.

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1   ***Q6.   WHAT IS THE PURPOSE OF YOUR TESTIMONY?***

2   ***A6.***   The purpose of my testimony is to explain OCC's opposition to the Stipulation.  
3           On the advice of counsel, I understand that the Commission may approve a  
4           stipulation only if the stipulation satisfies a three-prong test. First, the stipulation  
5           must be the product of serious bargaining among capable, knowledgeable parties.  
6           Second, the stipulation must benefit ratepayers and the public interest. Third, the  
7           stipulation cannot violate any important regulatory principle or practice.

8  
9           In my testimony, I will address the second and third prongs of this test. I  
10          conclude that the Stipulation does not benefit customers and the public interest  
11          and thus does not pass the second prong of the stipulation test. I also find that the  
12          Stipulation violates several important and long-standing regulatory principles and  
13          practices and, consequently, the Stipulation fails to meet the third prong of the  
14          test.

15  
16          Additionally, I provide comments on a number of provisions of the Stipulation.  
17          These provisions, in their current form, are ambiguous, unworkable, and not in the  
18          best interests of AEP Ohio's customers. They should be removed or modified.

19  
20   ***Q7.   PLEASE EXPLAIN WHY THE STIPULATION DOES NOT BENEFIT***  
21   ***CUSTOMERS AND THE PUBLIC INTEREST.***

22   ***A7.***   The Stipulation, in its current form, allows AEP Ohio to collect a substantial rate  
23          increase from its customers, especially residential customers, over the term of the

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1 proposed ESP. The Stipulation forces the customers of AEP Ohio to forego a  
2 variety of substantial rate and revenue reductions they may be entitled to in  
3 several proceedings pending before the Commission. These proceedings include  
4 the AEP Ohio Remand, the 2009 AEP Ohio FAC Audit, the 2010 AEP Ohio FAC  
5 Audit (PUCO Case No. 10-1286-EL-FAC), and the recently-filed Phase-in  
6 Recovery Rider case (PUCO Case No. 11-4921-EL-RDR).

7  
8 If these proceedings result in PUCO-ordered rate and other adjustments, such rate  
9 reductions or adjustments would need to be included in the baseline from which  
10 the proposed ESP rates and revenues impacts are measured as well as for purpose  
11 of the ESP-MRO comparison. When viewed from this perspective, the  
12 Stipulation will result in a very substantial rate increase to customers, especially  
13 residential customers. Based on a revised 2012 baseline before-ESP rate that I  
14 have developed, I estimate that the Stipulation will increase the revenue paid by  
15 AEP Ohio's customers by about \$1.122 billion (\$458 million by CSP and \$677  
16 million by OPC) over the three-year period of 2012, 2013, and 2014.<sup>4</sup> This  
17 amount of increase in total revenue to be collected from the customers of AEP  
18 Ohio exceeds the \$339 million (\$217 million by CSP and \$129 million by OPC)  
19 revenue increase imputed from the testimonies of AEP Ohio by \$783 million.<sup>5</sup>  
20 Over the same period of time, the yearly revenue collected by AEP Ohio, as a  
21 result of the Stipulation, will increase from \$3.571 billion in 2012 (before the

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<sup>4</sup> See Attachment DJD-I.

<sup>5</sup> See Attachment DJD-K.

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1 Stipulation) to \$4.028 billion in 2014, a 12.79% increase in yearly revenue  
2 collection.<sup>6</sup> Neither AEP Ohio nor other proponents of the Stipulation have  
3 justified this significant increase.

4  
5 Furthermore, a disproportionate share of the increase in revenues will be collected  
6 from residential customers. Specifically, for CSP, 68% of the total revenue  
7 increase over the three years is collected from residential customers.<sup>7</sup> For OPC,  
8 52% of the total increase in revenue over the three years is collected from  
9 residential customers.<sup>8</sup> And yet the estimated residential customers' share of total  
10 energy usage over the next three years is far less (43% in the case of CSP and  
11 28% OPC).<sup>9</sup> I have conducted a more detailed analysis of the increases of other  
12 rate components, namely the Base Generation Rate, Total Generation Rate, and  
13 Total Rate. These results also indicate that a similar unfair burden is being placed  
14 upon the residential customers while other customer classes will have far less rate  
15 increases and even rate decreases in certain instances.<sup>10</sup>

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<sup>6</sup> See Attachment DJD-I.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> See Attachments DJD-F, DJD-G, and DJD-H. A summary is provided in Table 1.

1 **Q8. PLEASE EXPLAIN WHY THE STIPULATION VIOLATES IMPORTANT**  
2 **REGULATORY PRINCIPLES OR PRACTICES.**

3 **A8.** First of all, I find that the ESP rates under the Stipulation are not more favorable  
4 in the aggregate as compared to the expected results that would otherwise be  
5 obtained through a market rate offer ("MRO"). The stipulated ESP thus fails to  
6 meet the legal requirements for Commission approval of an ESP under Ohio  
7 statutes, and violates the state regulatory policy espoused under R.C.  
8 4928.143(C)(1). Specifically, using a revised baseline ESP rate that I have  
9 developed and accepting the assumption of the future market price of electricity  
10 proposed by PUCO Staff and applying a methodology similar to the one used by  
11 PUCO Staff,<sup>11</sup> I find that AEP Ohio's customers will liberally pay about \$421  
12 million (\$114 million in 2012, \$135 million in 2013, and \$171 million in 2014)  
13 more over three years under the ESP rates in the Stipulation than under a MRO  
14 option.<sup>12</sup>

15  
16 Second, I find that the Distribution Investment Rider ("DIR") provisions in the  
17 Stipulation may violate some important and long-standing regulatory principles  
18 and practices. Specifically, I do not see the need of a DIR, especially in light of  
19 the fact that AEP Ohio has a distribution rate case pending at the same time. I  
20 find it troubling that the Stipulation includes an accelerated cost recovery

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<sup>11</sup> See Pre-filed Testimony of Robert B. Fortney, September 13, 2011 at 3-6.

<sup>12</sup> See Attachment DJD-J.

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1 mechanism such as the DIR without a demonstration of any benefits or need for  
2 this particular form of alternative regulation.

3  
4 Third, I find that the return on common equity ("ROE") of 10.50% contained in  
5 the Stipulation is not based on any supporting record in this proceeding. There is  
6 no evidence presented that the stipulated ROE is related to its business and  
7 financial risk, nor that the return on equity (and consequently rate of return) on  
8 distribution investment is just and reasonable. Actually, the PUCO Staff has  
9 recommended a much lower ROE for AEP Ohio based on its review in AEP  
10 Ohio's pending distribution rate case.<sup>13</sup> The use of a stipulated ROE for  
11 distribution-related investment without any supporting evidence violates the long-  
12 standing practice in Ohio which requires the rates for distribution services to be  
13 based on the cost of providing such a service.

14  
15 Fourth, the DIR provisions in the Stipulation also have the potential of allowing  
16 double recovery of the return on and return of the distribution investments that  
17 AEP Ohio is seeking to recover in its distribution rate case. AEP Ohio has filed a  
18 distribution rate case seeking a return on and of distribution investments as of a  
19 date certain, August 31, 2010. Yet the Stipulation also permits the Companies to  
20 earn a return on and of this same investment as the capital additions recognized in  
21 the DIR reflect gross plant in service incurred post 2000.

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<sup>13</sup> See Staff Report in PUCO Case No. 11-351-EL-AIR at 14-16 and Staff Report in PUCO Case No. 11-352-EL-AIR at 14-16.

1  
2 Fifth, certain Phase-In Recovery Rider/Securitization provisions contained in the  
3 Stipulation are ambiguous, unworkable and unreasonable. Specifically, the  
4 prohibition against adjustment to the book balance (of the phase-in deferral  
5 balance) at the end of 2011 is unreasonable and is not in the best interest of  
6 customers.<sup>14</sup> Based on my understanding of the various related proceedings  
7 pending before the Commission, I believe there is a strong probability that AEP  
8 Ohio has been actually over-collecting the costs of fuel and purchased power over  
9 the three-year period of the first ESP. Yet the Stipulation requires customers to  
10 forego this over-collection by prohibiting adjustment to the FAC phase-in deferral  
11 balance. In addition, there is no definition of or reference to what constitutes  
12 "suitable and appropriate legislation" to address the matter of securitization in the  
13 Stipulation.<sup>15</sup> The agreement to support, in advance, any subsequent approvals  
14 needed or tariffs required by AEP Ohio from the Commission to securitize the  
15 PIRR regulatory assets is unusual, given a complete lack of specificity of the  
16 approvals or tariffs required by AEP Ohio.<sup>16</sup> Finally, the provision in the  
17 Stipulation requiring AEP Ohio to use a mechanism to make an adjustment (up or

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<sup>14</sup> Specifically, in the Stipulation paragraph IV, 6, A. at page 26, it is stated "The collection period for the PIRR will commence on an AEP (combined CSP and OPco) basis for non-residential customers beginning January 1, 2012 and will include a debt carrying charge of 5.34% and calculated with no adjustment to the book balance as of year end 2011 (the "modified PIRR"), subject to the terms of this paragraph."

<sup>15</sup> See Stipulation paragraph IV, 6 at 25-26, which states "The Signatory Parties agree to work in good faith to pass suitable and appropriate legislation to address the matter as expeditiously as reasonably possible and to support any subsequent approvals needed or tariffs required by AEP Ohio from the Commission to securitize the PIRR regulatory assets."

<sup>16</sup> *Ibid.*

1 down) equal to the amount adjusted by the Commission or the Supreme Court of  
2 Ohio may be unworkable as there are usually some significant limitations in most  
3 securitization legislations on modifying the value of the regulatory asset  
4 underlying the securitization bonds.

5  
6 ***Q9. PLEASE EXPLAIN WHY THE "2012 RATES BEFORE PROPOSED ESP"***  
7 ***USED BY AEP OHIO IN ITS TESTIMONIES IS NOT A VALID BASELINE***  
8 ***TO EVALUATE THE RATE AND REVENUE IMPACT OF THE***  
9 ***STIPULATION.***

10 ***A9.*** The term "2012 Rates before Proposed ESP" is defined and used by AEP Ohio as  
11 a baseline rate in calculating the percentage of rate increase in 2012, 2013, and  
12 2014 under the Stipulation.<sup>17</sup> It is my understanding, based on a review of the  
13 testimonies and work papers filed by AEP Ohio, that this "2012 Rates before  
14 Proposed ESP" is derived from the current 2011 Base Generation Rates with  
15 additional elements. These elements are the estimated full fuel cost in 2012, the  
16 full 2011 Environmental Investment Carrying Charge Rider ("EICCR"), the 2011  
17 transmission and distribution costs, the 2011 Provider of Last Resort ("POLR")  
18 charge, and the estimated Phase-In Recovery Rider ("PIRR") to be started in  
19 2012. It is also my understanding that this "2012 Rates before Proposed ESP" is  
20 supposed to reflect the 2012 ESP rates the customers of AEP Ohio will face in the  
21 absence of an ESP as specified through the Stipulation. It has fully reflected the

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<sup>17</sup> See Roush Testimony filed on September 13, 2011, Exhibit DMR-1.



1 effects of fuel costs (without any cap) and those provisions approved in the first  
2 ESP.

3  
4 As explained below, this "2012 Rates before Proposed ESP" as calculated by  
5 AEP Ohio witness Roush overstates the estimated 2012 electricity rates that the  
6 customers of AEP Ohio are likely to face before the implementation of the  
7 stipulated ESP. The "2012 Rates before Proposed ESP" is not a reasonable and  
8 valid baseline in calculating the increase in rates and revenues associated with the  
9 Stipulation for the following reasons:

- 10 1. This "2012 Rates before Proposed ESP" does not include any  
11 prospective reduction in the Base Generation Rate (of the  
12 embedded environmental carrying charges) that may occur as a  
13 result of the Remand proceeding;
- 14 2. It does not include the complete removal of the POLR charges  
15 from the existing 2011 rates that may occur as a result of the  
16 Remand proceeding;
- 17 3. It also fails to account for the cumulative "flow-through effect" on  
18 fuel cost deferral balance as a result of the reduction in Base  
19 Generation Rate and POLR charge over the 2009 to 2011 period  
20 that may occur as a result of the Remand proceeding.

21  
22 In using the "2012 Rates before Proposed ESP" as the baseline in evaluating the  
23 rate and revenue impacts of the Stipulation, AEP Ohio is assuming there will be

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1 no reduction in rates and in the fuel cost deferral balance for its customers from  
2 the AEP Ohio Remand proceeding. In agreeing to the Stipulation, the signatory  
3 parties are essentially agreeing in advance to forego any relief or recovery of past  
4 and current overpayments they may be entitled to from the Remand proceeding  
5 and the AEP FAC audit proceedings. This is an unreasonable concession to seek  
6 from customers and is a concession that could turn out to be worth hundreds of  
7 millions of dollars. I estimate that AEP Ohio, by using the "2012 Rates before  
8 Proposed ESP", understates the total revenue increase contained in the Stipulation  
9 by about \$783 million (the difference between the \$1.122 billion revenue increase  
10 I estimate and the \$0.339 billion estimated by AEP Ohio) over the three-year  
11 period of 2012 to 2014.<sup>18</sup>

12  
13 ***Q10. PLEASE EXPLAIN YOUR THREE ADJUSTMENTS TO THE "2012 RATES***  
14 ***BEFORE PROPOSED ESP"DEFINED AND USED BY AEP OHIO.***

15 ***A10.*** In order to provide a reasonable baseline to evaluate the rate and revenue  
16 increases of the Stipulation, I make three adjustments to the "2012 Rates before  
17 Proposed ESP" defined and used by AEP Ohio. These adjustments are reasonable  
18 and consistent with the position advocated by OCC in the Remand proceeding,  
19 following from the Ohio Supreme Court's reversal of portions of the  
20 Commission's Order in AEP Ohio's first ESP case.

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<sup>18</sup> See Attachments DJD-I and DJD-K.

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1 First, I remove the carrying charges on 2001 to 2008 environmental investments  
2 from the Base Generation Rate component of the 2011 ESP rates. Second, I  
3 completely remove the POLR charges currently being collected in a separate rider  
4 of the 2011 ESP rates. Third, I adjust the estimated FAC deferral balance at the  
5 end of 2011 to be "zero". As there is no FAC deferral balance to be amortized,  
6 the PIRR rate that is scheduled to be collected starting in 2012 is set at "zero."

7  
8 ***Q11. PLEASE EXPLAIN WHY THE ENVIRONMENTAL CARRYING CHARGES***  
9 ***EMBEDDED IN THE 2011 BASE GENERATION RATE SHOULD BE***  
10 ***REMOVED COMPLETELY.***

11 ***A11.*** Under AEP Ohio's first ESP, the annual carrying charges on environmental  
12 investments are collected through two different rates. The annual incremental  
13 carrying charges associated with the environmental investments made during the  
14 2001 through 2008 period are collected through the Base Generation Rate. The  
15 annual carrying charges on the environmental investments made after January 1,  
16 2009, on the other hand, are being collected through an EICCR that is updated  
17 annually.

18  
19 I have been advised by counsel that there is no specific provision within R.C.  
20 4928.143(B)(2) that would allow the annual carrying charges on pre-January 1,  
21 2009 environmental investments to be included in an electric utility's ESP. It is

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OCC's position, confirmed by the Ohio Supreme Court<sup>19</sup>, that the statute permits an ESP to include only items listed in the statute, not unlisted items. I would note that subsection (B)(2)(b) of the statute makes it clear that the General Assembly did not permit capital asset investments that predate the January 1, 2009 Standard Service Offering to be included as part of the ESP. To suggest that the General Assembly would not allow capital investment predating the January 1, 2009 SSO and yet allow carrying charges on that disallowed investment seems illogical. I have reviewed the compliance tariffs and work papers filed by AEP Ohio in the first ESP, and can confirm that these particular environmental carrying charges have been collected through the base generation rates since April 2009.<sup>20</sup>

***Q12. PLEASE EXPLAIN YOUR CALCULATION OF THE ENVIRONMENTAL CARRYING CHARGES EMBEDDED IN THE 2011 BASE GENERATION RATE.***

***A12.*** Based on the compliance tariffs and workpapers filed by AEP Ohio in the first ESP on July 28, 2009, I identified the carrying charges on 2001 to 2008 environmental investments allocated to different customer classes of AEP Ohio, and the 2009 energy usage (kWh) used in setting the compliance tariff. The embedded environmental carrying charge rates per kWh for different customer classes can be calculated accordingly. Attachment DJD-A shows the details of

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<sup>19</sup> See Remand Decision at 12, Paragraph 31.

<sup>20</sup> Based on the Compliance work papers filed by the Companies on July 28, 2009 in PUCO Case Nos. 08-917-EL-SSO and 08-918-EL-SSO.

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1 my calculation and the resulting environmental carrying charges embedded in the  
2 2011 base generation rate.

3  
4 As for the aggregate revenue collected from AEP Ohio's customers associated  
5 with this particular environmental carrying charge, I have estimated the amount of  
6 incremental carrying charges associated with the 2001 through 2008  
7 environmental investments to be about \$110 million (\$26 million collected from  
8 CSP's customers and \$84 million from OPC's customers) per year from 2009 to  
9 2011 depending on the actual energy used by different classes of customers over  
10 the first ESP period. If the Commission decides in the Remand proceeding that  
11 the carrying charges on the 2001 through 2008 environmental investments should  
12 be removed, then the customers of AEP Ohio should be due a refund of about  
13 \$330 million in base generation rates that the customers were charged during the  
14 three-year term of the first ESP.<sup>21</sup> I estimate that \$266 million has been collected  
15 (\$63 million from CSP's customers and \$203 million from OPC's customers)  
16 from April 2009 through May 2011. For the last seven months of 2011, I estimate  
17 that \$64 million in environmental carrying charges is either being collected  
18 subject to refund or is still to be collected by AEP Ohio (\$15 million from CSP's  
19 customers and \$49 million from OPC's customers).<sup>22</sup> See Attachment DJD-B.

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<sup>21</sup> The \$330 million saving is an estimate assuming the total electricity usage and usage by individual classes of customers remain the same from 2008 to 2011. The actual revenues collected and to be collected may be higher or lower than the estimated figures.

<sup>22</sup> These revenue figures are derived based on the assumption that the annual revenue is collected equally each month of the year.

1 **Q13. PLEASE EXPLAIN WHY THE POLR CHARGES EMBEDDED IN THE 2011**  
2 **ESP RATE SHOULD BE REMOVED COMPLETELY.**

3 **A13.** It is my understanding that the Ohio Supreme Court reversed the provisions of the  
4 ESP order authorizing the POLR charge.<sup>23</sup> The Court stated: "In short, the  
5 manifest weight of the evidence contradicts the commission's conclusion that the  
6 POLR charge is based on cost."<sup>24</sup> The Court also indicated that there is no  
7 evidence supporting the Commission's characterization of this charge as based on  
8 cost.<sup>25</sup> The Court did allow the Commission to revisit the POLR issue. The Court  
9 stated that it expressed no opinion on whether a formula-based POLR charge is  
10 *per se* unreasonable or unlawful, and advised that the Commission may consider  
11 on remand whether a non-cost-based POLR charge is reasonable and lawful.<sup>26</sup>

12  
13 Nevertheless, in the Remand proceeding, I could not find any additional and  
14 credible evidence regarding AEP Ohio's actual costs of providing POLR service.  
15 On this basis, I conclude that the existing POLR charge was not justified and  
16 should be removed from the existing ESP rate completely. Consequently, any  
17 POLR charges embedded in the 2011 ESP rates should be removed, and AEP  
18 Ohio's customers are entitled to a return of the full amount of POLR revenues  
19 collected since April 2009 plus interest.

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<sup>23</sup> See Remand Decision at 11, Paragraph 29.

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

<sup>26</sup> See Remand Decision at 11, Paragraph 30.

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1 I have reviewed the POLR-related tariffs of CSP and OPC currently in effect and  
2 those in effect from April 2009 to May 2011. They are included in the Provider  
3 of Last Resort Charge Rider, Sheet No. 69-1 for CSP, and Sheet No. 69-1 for  
4 OPC filed by the Companies on May 27, 2011, and the same tariff sheets filed by  
5 the Companies on March 30, 2009.

6  
7 I estimate that the POLR revenue collected by AEP Ohio to be about \$152 million  
8 (\$97.4 million by CSP and \$54.8 million by OPC) per year from 2009 through  
9 2011 depending on the actual energy usage of AEP Ohio's customers in these  
10 years.<sup>27</sup> The estimated entire POLR revenue collected in AEP Ohio's first ESP is  
11 about \$457 million. So far during the ESP period from April 2009 through May  
12 2011, it is estimated that AEP Ohio has collected about \$368 million in POLR  
13 charges (\$235.3 million through CSP and \$132.4 million through OPC).  
14 Additionally, about \$89 million (\$56.8 million through CSP and \$32 million  
15 through OPC) in POLR will be collected in the last seven months of 2011.  
16 Currently a portion of the POLR revenues is being collected, subject to refund.  
17 See Attachment DJD-C.

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<sup>27</sup> Based on the Compliance work papers filed by the Companies on July 28, 2009 in PUCO Case Nos. 08-917-EL-SSO and 08-918-EL-SSO.

1 **Q14. PLEASE EXPLAIN YOUR ADJUSTMENT TO THE FAC DEFERRAL**  
2 **BALANCE THAT IS TO BE AMORTIZED AND COLLECTED THROUGH**  
3 **THE "PHASE-IN RECOVERY RIDER" OVER A SEVEN-YEAR PERIOD.**

4 **A14.** The third adjustment to the "2012 Rates before Proposed ESP" is to re-set the  
5 FAC deferral balance (the underlying regulatory asset to the PIRR) at the end of  
6 2011 to reflect the true amount of fuel and purchased power costs being deferred  
7 in the first ESP period. I conclude that it is likely there would be no FAC cost  
8 being deferred in the first ESP if the flow-through effects of the Remand  
9 proceeding and the adjustments proposed or to be proposed in the 2009 and 2010  
10 AEP FAC Audit proceedings are fully reflected in rates.

11  
12 As there is no FAC deferral balance to be amortized, the PIRR scheduled to start  
13 in 2012 is also set at "zero." This adjustment in FAC deferral balance reflects the  
14 fact that the estimated amount (\$634 million) of non-FAC revenues  
15 (environmental carrying charges and POLR charges) over-collected by AEP Ohio  
16 during the period of April 2009 to May 2011 already exceeds the current estimate  
17 (\$628 million) of the FAC deferral balance at the end of 2011.<sup>28</sup> The estimated  
18 over-collection of \$634 million does not include any additional reduction in  
19 carrying charges associated with the monthly reduction in the FAC deferral  
20 during the period of 2009 to 2011. Nor does it include any proposed adjustments  
21 to actual FAC costs that could occur in the two pending FAC audit cases.

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<sup>28</sup> See the Application in PUCO Case No. 11-4921-EL-RDR.



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1 Under the FAC deferral mechanism approved by the Commission in AEP Ohio's  
2 first ESP case, the reduction of the FAC deferral is directly related to the removal  
3 of environmental carrying charges and the POLR charge. The phase-in deferral  
4 balance is comprised of the actual fuel expenses that have not been collected  
5 through the FAC rates and the carrying costs associated with the shortfalls of fuel  
6 expense collection.<sup>29</sup> The FAC rates during the first ESP, in turn, are limited to  
7 the amount of fuel expenses that would be collected from customers such that  
8 total revenues would not exceed the Commission-ordered "caps" on annual  
9 revenue for CSP and OPC. Under the FAC and rate caps set by the Commission  
10 in AEP Ohio's first ESP, the FAC rates for CSP and OPC are essentially "residual  
11 values" between the capped rates and the sum of all non-FAC rates. If the sum of  
12 all non-FAC rates (which include the base generation rate, the POLR charge, and  
13 other riders) were reduced as a result of the remand proceeding, the allowed FAC  
14 rates (that is amount of FAC expenses collected, as a residual value, from  
15 customers) would increase. As the FAC rates increase, the amount of fuel  
16 expenses being deferred, and the carrying costs associated with the fuel expense  
17 deferral would decrease. Consequently, if the environmental carrying charges  
18 embedded in the base generation rate and the POLR charge were removed, the  
19 phase-in FAC deferral balance would be reduced accordingly.

<sup>29</sup> For a description of the method and calculation of the FAC deferral balance, see AEP Ohio's Application filed on September 30, 2009 in PUCO Case No. 09-872-EL-FAC.

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1 I have estimated that the total amount for the environmental carrying charges  
2 embedded in the base generation rate and the POLR charge collected by AEP  
3 Ohio during the time period of April 2009 to May 2011 to be about \$634 million  
4 (\$298 million was collected from CSP's customers and \$335 million from OPC's  
5 customers). See Attachment DJD-D.

6  
7 ***Q15. PLEASE EXPLAIN THE TERM "REMAND-REVISED 2012 RATES***  
8 ***BEFORE PROPOSED ESP" USED IN YOUR ANALYSIS OF THE RATE***  
9 ***AND REVENUE IMPACT OF THE STIPULATION.***

10 ***A15.*** The "Remand-Revised 2012 Rates before Proposed ESP" is the baseline ESP rate  
11 I used for the analysis regarding the rate and revenue impacts of the Stipulation.  
12 It represents the estimated electricity rate the customers of AEP Ohio will likely  
13 face in 2012 before the implementation of the ESP as proposed in the Stipulation.  
14 In calculating this "Remand-Revised 2012 Rates before Proposed ESP", I used  
15 the same fuel cost (full amount without any cap), EICCR rate, transmission rate,  
16 and distribution rate calculated and presented by AEP Ohio. Then I applied the  
17 three adjustments: a lower Base Generation Rate, a POLR charge set at "zero"  
18 and a PIRR rate set at "zero" I described earlier in my testimony. I believe this is  
19 a reasonable and valid baseline rate. The "Remand-Revised 2012 Rates before  
20 Proposed ESP" as well as the stipulated rates presented by AEP Ohio for different  
21 classes of customers are presented in Attachment DJD-E.

**Q16. PLEASE SUMMARIZE YOUR FINDINGS REGARDING THE INCREASE  
IN BASE GENERATION RATE, TOTAL GENERATION RATE, AND  
TOTAL RATE, BY CUSTOMER CLASS, AS A RESULT OF THE  
STIPULATION.**

**A16.** By using the various rate components of the "Remand-Revised 2012 Rates before  
Proposed ESP" as the baseline for comparison, I calculated the percentage  
increases in rates for different classes of AEP Ohio's customers as a result of the  
Stipulation. A summary of the percentage increase in Base Generation Rate by  
customer class is shown in Attachment DJD-F. A summary of the percentage  
increase in Total Generation Rate by customer class is shown in Attachment DJD-  
G. A summary of the percentage increase in Total Rate is shown in Attachment  
DJD-H. The percentage increases of these three rate components all indicate that  
residential customers are expected to have much higher and disproportionate  
percentages of rate increases than other major customer classes such as GS1, GS2,  
GS3, and GS4/IRP. A summary of the percentage of increase is shown in Table 1.

**Table 1: Percentage Increase in Rates by Customer Classes (2012 to 2014)**

	CSP			OPC		
Customer Class	Base Generation Rate	Total Generation Rate	Total Rate	Base Generation Rate G	Total Generation Rate	Total Rate
RS	78%	20%	17%	47%	22%	20%
GS1	-39%	-27%	2%	-19%	-8%	14%
GS2	-34%	-24%	5%	-3%	0%	21%

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GS3	15%	-1%	7%	19%	10%	10%
GS4/IRP	128%	20%	10%	15%	9%	2%
All Customers	45%	9%	12%	20%	11%	13%

1

2 ***Q17. PLEASE SUMMARIZE YOUR FINDINGS REGARDING THE***  
3 ***PERCENTAGE SHARE OF THE INCREASE IN TOTAL REVENUE, BY***  
4 ***CUSTOMER CLASS, AS A RESULT OF THE STIPULATION.***

5 ***A17.*** I have calculated the percentage share of the increase in total revenue to be  
6 collected for different classes of customers under the Stipulation. See Attachment  
7 DJD-I. Once again, residential customers are asked to bear a very high  
8 percentage of the increase in total revenue. For the three-year period of 2012,  
9 2013, and 2014, CSP's residential customers are expected to pay an additional  
10 \$311 million, 68% of the total revenue increase of \$458 million. For the same  
11 time period, OPC's residential customers are expecting to pay \$351 million, 52%  
12 of the total revenue increase of \$677 million. The percentage shares of the other  
13 four major customer classes, GS1, GS2, GS3, and GS4/IRP are considerably  
14 lower. In the case of CSP, GS3 customers have the second highest percentage  
15 share of 16% of total revenue increase. In the case of OP, GS2 customers have  
16 the second highest percentage share of 27%. A summary of the percentage share  
17 of the increase in total revenue is shown in Table 2. Notably, the signatory parties  
18 have not shown any credible rationale for the revenue distribution; nor can it be  
19 claimed that the stipulated rate increases among different customer classes are  
20 supported by the cost to serve.

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Table 2: Percentage Share of Increase in Revenues by Customer Class

	2012		2013		2014		2012-2014	
Customer Class	CSP	OPC	CSP	OPC	CSP	OPC	CSP	OPC
RS	62%	48%	70%	54%	69%	53%	68%	52%
GS1	1%	3%	0%	2%	0%	2%	0%	2%
GS2	7%	32%	5%	27%	4%	24%	5%	27%
GS3	21%	18%	15%	16%	15%	17%	16%	17%
GS4/IRP	8%	-5%	8%	-3%	11%	3%	9%	-1%

**Q18. PLEASE EXPLAIN YOUR CALCULATION OF THE "BASELINE ESP RATE" USED IN YOUR ANALYSIS REGARDING THE COMPARISON OF THE ESP OPTION (AS SPECIFIED IN THE STIPULATION) AND THE MRO OPTION.**

**A18.** As advised by counsel, one of the legal requirements for the approval of an ESP (as specified in the Stipulation in this proceeding) is that the rates, terms, and conditions under the Stipulation (as an ESP) are more favorable in the aggregate as compared to the expected results that would otherwise be obtained through a market rate offer. The statute also provides specific guidelines on making this ESP-MRO comparison. PUCO Staff witness Robert B. Fortney has concluded that during the three-year period of 2012 to 2015, the ESP (Stipulation) option is slightly more favorable than the MRO option. \

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1 In making my own comparison, I generally follow Mr. Fortney's methodology  
2 and some of the data used such as the projected market price of electricity and the  
3 transmission adjustment. However, I did not use the "Current Market  
4 Comparable Total Generation" defined and calculated in his analysis as the  
5 Baseline ESP Rate required in estimating the blended MRO price. I conclude that  
6 the full impact of the Remand proceeding, that is, the removal of the  
7 environmental carrying charge and the POLR charge and the flow-through effect  
8 on FAC deferral balance, must be reflected in the baseline 2011 ESP rate. Even  
9 though the Commission has not decided the Remand proceeding, I believe, as a  
10 better protection of the customer and public interest, it is reasonable to apply a  
11 stringent but reasonable assumption in making this ESP-MRO comparison. It  
12 should also be noted that the "Remand-Revised 2012 Rate before Proposed ESP"  
13 may also overestimate the 2011 Baseline ESP Rate as the effects of the pending  
14 2009 and 2010 FAC Audit cases are not reflected in the baseline ESP rates I  
15 proposed and calculated in making the ESP-MRP comparison. In this regard, it is  
16 possible that the actual cost advantage of the MRO option over the Stipulation  
17 (ESP option) is even larger than my calculation here.

18  
19 I used the "Remand-Revised 2012 Rate before Proposed ESP" calculated earlier  
20 in my testimony plus the "Transmission Adjustment" as the "Baseline ESP Rate"  
21 in making the ESP-MRO comparison. The results are shown in Attachment DJD-  
22 J.

**Q19. PLEASE DEFINE AND EXPLAIN YOUR CALCULATION OF THE “MRO RATE” USED IN YOUR COMPARISON OF THE ESP OPTION AND THE MRO OPTION.**

**A19.** The “MRO Rate”, according to the statute, is a blending of the most recent ESP rate and the expected market price of electricity. In my analysis, the “Baseline ESP Rate” is used as the most recent ESP price. The expected market price for electricity is the same as those provided by PUCO Staff witness Johnson in his testimony, with the exception of the 2014 projected market price.<sup>30</sup> The 2014 projected market price I used (\$67.49 per MWH) is the average of the January 2013 through May 2014 market price (\$61.38 per MWH) and the June 2014 through May 2015 price (\$73.59 per MWH) estimated by Staff witness Johnson. The blending ratios are 90% of the most recent ESP price plus 10% of expected market price for the first year, 80% of the most recent ESP price plus 20% of expected market price for the second year, and 70% of the most recent ESP price plus 30% of expected market price for the third year.<sup>31</sup>

**Q20. PLEASE SUMMARIZE YOUR FINDINGS REGARDING THE COMPARISON OF THE STIPULATED ESP OPTION AND THE MRO OPTION.**

**A20.** A detailed comparison of the ESP-MRO options in 2012, 2013, 2014, and the whole three-year period is shown in Attachment DJD-J. My calculations show

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<sup>30</sup> See Pre-filed Testimony of Daniel R. Johnson, August 4, 2011 at 32.

<sup>31</sup> See R.C. 4928.142(D).

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1       that AEP Ohio's customers will likely pay \$351 million more in generation costs  
2       under the Stipulation than under the MRO option. Therefore, I conclude that the  
3       ESP option specified in the Stipulation is not more favorable in the aggregate than  
4       the MRO option. The Stipulation, in its current form, must be rejected.

5  
6       ***Q21. HAVE YOU REVIEWED OTHER TERMS AND CONDITIONS OF THE***  
7       ***STIPULATION AS PART OF THE ESP-MRO COMPARISON.***

8       ***A21.*** Yes. I read the other terms and conditions specified in the Stipulation and  
9       considered some of these terms and conditions. It is my understanding that the  
10      required MRO-ESP comparison does include rates and other terms and  
11      conditions, including, for example, any deferral and future recovery of deferral.<sup>32</sup>  
12      Nevertheless, I conclude that the effects of these terms and conditions, if any, do  
13      not change the overall results of the ESP-MRO comparison.

14  
15      ***Q22. PLEASE COMMENT ON THE PHASE-IN RECOVERY RIDER (PIRR)***  
16      ***PROVISIONS OF THE STIPULATION.***

17      ***A22.*** AEP Ohio (Ohio Power Company) filed an application on September 1, 2011 for  
18      approval of a mechanism to recover deferred fuel costs accumulated during the  
19      first ESP (the "PIRR" proceeding).<sup>33</sup> The process for collecting the phase-in FAC

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<sup>32</sup> See R.C. 4928.143(C)(1).

<sup>33</sup> Application for Approval of a Mechanism to Recover Deferred Fuel Costs (PUCO Case No. 11-4921-EL-RDR).



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1        deferral balances at the end of 2011, if any, starting January 2012 through  
2        December 2018 was provided in the order of the first ESP filing. However, the  
3        amount of the deferral balance to be recovered through the PIRR is still to be  
4        determined by the Commission. This PIRR proceeding is part of the Stipulation  
5        at the present time, and there are several provisions in the Stipulation related to  
6        the PIRR.

7  
8        First of all, I conclude that there is no need for a PIRR as there is likely no  
9        regulatory asset associated with FAC deferral at the end of 2011. As discussed  
10       earlier in my testimony, the FAC deferral balance of AEP Ohio at the end of 2011  
11       should be set at "zero" after the effects of the Remand proceeding and the FAC  
12       Audit proceedings are fully accounted for.

13  
14       Second, the Stipulation's prohibition against adjustments to the book balance at  
15       the end of 2011 is unreasonable and is not in the best interest of customers. In  
16       addition to the flow-through effects of removing the POLR charge and the  
17       environmental carrying charge embedded in base generation rate on the FAC  
18       deferral balance, three FAC audits that have been completed or will be completed  
19       and will likely to result in further reduction of the FAC deferral balance at the end  
20       of 2011. There is a strong probability that AEP Ohio has been actually over-  
21       collecting the costs of fuel and purchased power over the three-year period of the  
22       first ESP.

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1 The record for the 2009 FAC Audit has been completed and the case has been  
2 briefed. The 2010 FAC Audit was completed and a procedural schedule has been  
3 set.<sup>34</sup> It is expected to go to hearing in October 2011. In both proceedings, there  
4 are disagreements regarding the amount of prudently-incurred FAC costs in 2009  
5 and 2010 that should be allocated to AEP Ohio's retail customers. The amounts  
6 of possible adjustment in the FAC costs allocated to retail customers are  
7 substantial. The PIRR proceeding should not be resolved through the Stipulation.  
8 The pending PIRR proceeding should be decided separately from this proceeding  
9 and should fully reflect the expected outcome of the three FAC audit cases. Any  
10 PIRR rate, if authorized by the Commission before the completion of the three  
11 FAC audits, should be collected subject to refund.

12  
13 ***Q23. PLEASE COMMENT ON THE SECURITIZATION PROVISIONS OF THE***  
14 ***STIPULATION.***

15 ***A23.*** If the Commission decides that a PIRR rate should still be approved, the  
16 provisions in the Stipulation regarding securitization of the FAC regulatory asset  
17 need to be modified or removed. First, I have been advised by counsel that  
18 existing statutes, specifically O.A.C. 4928.143(B)(2)(f), already provide for a  
19 securitization based on the phase-in deferral balance under the ESP. AEP Ohio  
20 had the option to propose a securitization plan in the proposed ESP under existing  
21 statutes and choose not to do so.

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<sup>34</sup> See PUCO Case No. 10-1286-EL-FAC.

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1       Second, the securitization provisions in the Stipulation are ambiguous and  
2       unworkable. There is no definition of "suitable and appropriate legislation" to  
3       address the matter of securitization. The advance agreement to support any  
4       subsequent approvals needed or tariffs required by AEP Ohio from the  
5       Commission to securitize the PIRR regulatory assets is highly unusual given that  
6       the Stipulation is not specific as to what the stipulating parties are agreeing to, nor  
7       as to what AEP Ohio will propose.

8  
9       Third, the provision in the Stipulation requiring AEP Ohio to use a mechanism to  
10      make an adjustment (up or down) equal to the amount adjusted by the  
11      Commission or the Supreme Court of Ohio is in all likelihood an empty promise.  
12      Based on my understanding of possible new securitization legislation, there will  
13      be strict limitations regarding any possible adjustments of an underlying  
14      regulatory asset once the regulatory asset is being securitized. Obviously, in this  
15      proceeding, I am not going to discuss specific provisions of any possible new  
16      legislation on securitization. I am not proposing to put any restriction on possible  
17      securitization legislation as it is not a subject of my testimony. But I do believe  
18      that any regulatory asset should not be securitized until the value of the regulatory  
19      asset is finalized and all appeals of all proceedings underlying the regulatory asset  
20      are exhausted. This is the best approach for AEP Ohio's customers and AEP  
21      Ohio. The Stipulation fails to adopt this reasonable approach.

22

1 **Q24. PLEASE COMMENT ON THE DISTRIBUTION INVESTMENT RIDER**  
2 **(DIR) PROVISIONS OF THE STIPULATION.**

3 **A24.** The establishment of a DIR effective January 2012 based on post-2000  
4 investment, as proposed in the Stipulation, is unnecessary and problematic given  
5 that AEP Ohio already has filed a distribution rate case and the discovery and  
6 review of the distribution rate case is well underway.<sup>35</sup> There are three problems  
7 related to the DIR provisions of the Stipulation.

8  
9 First, the ROE of 10.50% contained in the Stipulation is not based on any  
10 supporting record of this proceeding and there is no evidence presented that the  
11 stipulated ROE is related to the business and financial risk facing AEP Ohio.  
12 There has been no evidence presented that a ROE of 10.50% is a just and  
13 reasonable return for equity investors on such investment. In fact, the PUCO  
14 Staff has recommended a much lower ROE for AEP Ohio based on its review in a  
15 pending AEP

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<sup>35</sup> The Staff Reports of the AEP Ohio distribution case were issued on September 15, 2011.

*Revised Direct Testimony of Daniel J. Duann, Ph.D. CRRA  
In Opposition of the Stipulation and Recommendation  
On Behalf of the Office of the Ohio Consumers' Counsel  
PUCO Case Nos. 11-346-EL-SSO et al.*

1 Ohio distribution rate case. The use of a stipulated ROE, unrelated to the business  
2 and financial risk facing AEP Ohio and not shown to be just and reasonable  
3 violates the long-standing practice and statutes in Ohio for setting the rates of  
4 distribution services based on the cost of providing such a service.

5  
6 The DIR provisions in the Stipulation also have the potential of allowing double  
7 recovery by AEP Ohio of the return earned on and of the same capital investment,  
8 specifically the distribution investment made after 2000 through August 31, 2010  
9 (the Date Certain of the pending distribution case). The pending distribution rate  
10 case, as a stand-alone traditional rate case, allows AEP Ohio the opportunity to  
11 collect the return of and return on the incremental net plant in-service after 2000  
12 through the date certain. The DIR provisions in the Stipulation provide another  
13 opportunity for AEP Ohio to earn a return on and of the same distribution  
14 investments subject to a prudence review each year. There is no guarantee that a  
15 prudence review each year can prevent the double recovery of return earned on  
16 distribution investments made in this particular period of time.

17  
18 The DIR is mainly an accelerated cost recovery mechanism. I was advised by  
19 counsel that current statutes, in particular R.C. 4928.143(B)(2)(h), allow an ESP  
20 to include distribution investments, subject to certain limitations. Specifically, as  
21 advised by counsel, the statutes require a showing of the need for such  
22 investment. In this proceeding, AEP Ohio has not shown a compelling need for  
23 distribution infrastructure or modernization investments. Moreover, the

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1 Commission has not examined the reliability of AEP Ohio's distribution system  
2 in this proceeding, which it must do before approving distribution infrastructure  
3 investment under an ESP.


4  
5 Additionally, as a matter of sound regulatory policy, an accelerated cost recovery  
6 mechanism such as the DIR should be approved only if there is a clear showing of  
7 the benefits of allowing such an accelerated recovery. AEP has failed to show the  
8 need for such accelerated recovery. AEP Ohio always has the means to collect  
9 return on and of distribution investment by filing a distribution rate case.

10  
11 **Q25. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A25.** Yes. However, I reserve the right to supplement my testimony in the event that  
13 AEP Ohio, PUCO Staff or other parties submit additional testimonies or  
14 comments, or if new information or data in connection with this proceeding  
15 becomes available.

## CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Revised Direct Testimony of Daniel J. Duann was served via electronic transmission to the persons listed below on this 12th day of October, 2011.

  
Maureen R. Grady  
Assistant Consumers' Counsel

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# ATTACHMENT DJD-A

## Estimations of Embedded Environmental Carrying Charges in Base Generation Rate and Remand-Revised 2011 Base Generation Rate

	2001-2008 Environmental Carrying Charges*	kWh*	Carrying Charges Embedded in 2009-2011 Base Generation Rate**	2011 Base Generation Rate***	Remand-Revised 2011 Base Generation Rate****
<b>CSP</b>					
NS	\$8,621,312	7,439,101,236	\$0.115892	\$2.01	\$1.894108
GS1	\$986,257	362,312,064	\$0.272212	\$4.57	\$4.297788
GS2	\$4,630,400	1,773,536,361	\$0.261083	\$4.40	\$4.138917
GS3	\$9,258,954	7,119,538,837	\$0.130050	\$2.20	\$2.069950
GS4/IRP	\$1,640,932	2,660,557,378	\$0.061676	\$0.94	\$0.878324
AL	\$91,589	53,767,943	\$0.170341	\$2.89	\$2.719659
SL	\$28,399	39,788,122	\$0.071376	\$1.81	\$1.738624
SBS	\$0	0		\$2.79	\$2.790000
Joint S.T.	\$742,157	2,233,977,978	\$0.033221		
<b>SUBTOTAL</b>	<b>\$26,000,000</b>	<b>21,682,580,919</b>	<b>\$0.119912</b>	<b>\$2.02</b>	<b>\$1.900088</b>
<b>OP</b>					
NS	\$26,016,192	7,496,610,363	\$0.347039	\$2.41	\$2.062961
GS1	\$1,832,864	372,084,578	\$0.492593	\$3.42	\$2.927407
GS2	\$15,207,911	3,463,583,598	\$0.439080	\$3.05	\$2.610920
GS3	\$18,387,785	6,243,044,003	\$0.294532	\$2.05	\$1.755468
GS4/IRP	\$17,045,983	6,955,687,138	\$0.245065	\$1.54	\$1.294935
EHG	\$57,598	24,990,056	\$0.230484	\$1.49	\$1.259516
EHS	-\$332	468,949	-\$0.070797	\$0.00	\$0.070797
SS	\$194,637	54,782,462	\$0.355291	\$2.47	\$2.114709
FL	\$0	0		\$0.42	\$0.420000
OL	\$427,508	58,236,191	\$0.734093	\$6.92	\$6.185907
SL	\$379,476	66,331,404	\$0.572091	\$7.37	\$6.797909
SBS	\$12,206	1,160,674	\$1.051630	\$45.79	\$44.738370
Joint S.T.	\$4,438,173	2,234,013,996	\$0.198664		
<b>SUBTOTAL</b>	<b>\$84,000,001</b>	<b>26,970,793,414</b>	<b>\$0.311448</b>	<b>\$2.16</b>	<b>\$1.848552</b>
<b>AEP Ohio</b>	<b>\$110,000,001</b>	<b>48,653,374,333</b>	<b>\$0.226089</b>	<b>\$2.10</b>	<b>\$1.873911</b>

### Sources:

\* Compliance Tariffs and Work Papers Filed on July 28, 2009 in Case Nos. 08-917-EL-850 et al.

\*\* Calculated by dividing the "2001-2008 Environmental Carrying Charges" by "kWh" and times 100.

\*\*\* Exhibit DMR-1, page 1 of 2 of testimony filed by AEP witness David M. Roush on September 13, 2011 in Case Nos. 11-346-EL-330 et al.

\*\*\*\* Calculated by deducting the "Embedded Environmental Carrying Charge" from the "Base Generation Rate".



**ATTACHMENT DJD-B****Estimate of Revenues Collected Under Base Generation Rate for Annual Environmental Carrying Charges (2009-2011)**

	Annual Amount As Filed in ESP Tariffs (a)	Monthly Average (b)	Estimated Revenues (April 2009 - May 2011) (c)	Estimated Revenue (June 2011 - December 2011) (d)	Estimated Total ESP (April 2009 - December 2011)
CSP	\$26,000,000	\$2,166,667	\$62,833,333	\$15,166,667	\$78,000,000
OP	\$84,000,001	\$7,000,000	\$203,000,002	\$49,000,001	\$252,000,003
AEP Ohio	\$110,000,001	\$9,166,667	\$265,833,336	\$64,166,667	\$330,000,003

**Sources:**

(a) Compliance Tariffs and Work Papers Filed on July 28, 2009, page 60 for CSP and page 71 for OPC in Case Nos. 08-519-EL-S&O et al.

(b) Annual Amount divided by 12.

(c) For April 2009 through December 2009 AEP Ohio was allowed to collect the full annual amount of increase resulting in a total 28 months of collections for April 2009 through May 2011.

(d) June 2011 through December 2011 is 7 months.

**ATTACHMENT DID-C****Estimate of Revenues Collected Under POLR Charge Rider (2009-2011)**

	Annual Amount As Filed in ESP Tariffs (a)	Monthly Average (b)	Estimated Revenues (April 2009 - May 2011) (c)	Estimated Revenue (June 2011 - December 2011) (d)	Estimated Total ESP (April 2009 - December 2011)
CSP	\$97,384,098	\$8,115,342	\$235,344,904	\$56,807,391	\$292,152,294
OP	\$54,801,769	\$4,566,814	\$132,437,608	\$31,967,699	\$164,405,307
<hr/>					
AEP Ohio	\$152,185,867	\$12,682,156	\$367,782,512	\$88,775,089	\$456,557,601

**Sources:**

(a) Compliance Tariffs and Work Papers Filed on July 28, 2009, page 60 for CSP and page 71 for OP in Case Nos. 08-919-EL-SSO et al.

(b) Annual Amount divided by 12.

(c) For April 2009 through December 2009, AEP Ohio was allowed to collect the annual amount of increase resulting in a total of 29 months of collection for April 2009 through May 2011.

(d) June 2011 through December 2011 is 7 months.

**ATTACHMENT DJD-D****Estimate of Revenues Collected (Excluding Carrying Cost on Deferral) Under Base Generation Rate and POLR Adjustments (201**

	<b>Base Generation Rate (a)</b>	<b>POLR (b)</b>	<b>Total</b>
<b><u>April 2009 - May 2011</u></b>			
<b>CSP</b>	\$62,833,333	\$235,344,904	\$298,178,237
<b>OP</b>	\$203,000,002	\$132,437,608	\$335,437,610
<b>AEP Ohio</b>	\$265,833,336	\$367,782,512	\$633,615,848
<b><u>June 2011 - September 2011</u></b>			
<b>CSP</b>	\$8,666,667	\$32,461,368	\$41,128,035
<b>OP</b>	\$28,000,000	\$18,267,256	\$46,267,256
<b>AEP Ohio</b>	\$36,666,667	\$50,728,624	\$87,395,291
<b><u>October 2011 - December 2011</u></b>			
<b>CSP</b>	\$6,500,000	\$24,346,026	\$30,846,026
<b>OP</b>	\$21,000,000	\$13,700,442	\$34,700,442
<b>AEP Ohio</b>	\$27,500,000	\$38,046,468	\$65,546,468
<b><u>Total</u></b>			
<b>CSP</b>	\$78,000,000	\$292,152,294	\$370,152,294
<b>OP</b>	\$252,000,003	\$164,405,307	\$416,405,310
<b>AEP Ohio</b>	\$330,000,003	\$456,557,601	\$786,557,604

**Sources:**

(a) Compliance Tariffs and Work Papers Filed on July 28, 2009 and Attachment DJD-BL

(b) Compliance Tariffs and Work Papers Filed on July 28, 2009 and Attachment DJD-C.

# REVISED ATTACHMENT DJD-E (1 of 2)

## Remand-Revised 2012 Rates Before ESP and Summary of Stipulated Rate Increases

Remand-Revised 2012 Rates Before Proposed ESP(a)										2012 Rates with Proposed ESP**										
	Base Gen.	Full FAC	Full Env.	Total Gen.	Current Trans.	Current Dist.	POUR	Phase-In Rider	Total	Base Gen.	FAC	Env.	Total Gen.	Current Trans.	Proj. Dist.	POUR	LF Rider	Phase-In Rider	Transition Rider	Total
CSP																				
RS	2.01	3.65	0.11	5.77	0.82	4.00	0	0	10.59	3.22	3.38		6.60	0.83	4.40				-0.29	11.53
GS1	4.57	3.65	0.26	8.48	0.70	3.68	0	0	12.81	2.52	3.38		5.89	0.70	3.98			0.23	2.34	13.14
GS2	4.40	3.54	0.25	8.29	0.75	2.41	0	0	11.45	2.63	3.37		6.00	0.75	2.62		1.04	0.23	1.58	12.21
GS3	2.70	3.60	0.13	5.93	0.58	1.59	0	0	8.10	2.29	3.23		5.62	0.58	1.72		-0.08	0.23	0.53	8.98
GS4/WP	0.94	3.46	0.05	4.45	0.70	0.28	0	0	5.43	1.93	3.20		5.13	0.70	0.30		-0.13	0.22	-0.53	5.69
AL	2.89	3.85	0.16	6.70	0.22	13.66	0	0	20.58	0.54	3.38		3.91	0.22	15.26			0.23	3.62	23.24
SL	1.81	3.65	0.10	5.56	0.22	7.38	0	0	13.16	0.54	3.38		3.92	0.22	8.21			0.23	1.97	14.56
SBS	2.79	3.46	0.16	6.41	1.72	0.34	0	0	8.47	2.88	3.20		6.07	1.72	0.36			0.22	0.26	8.63
Subtotal	2.02	3.59	0.12	5.73	0.72	2.46	0	0	8.91	2.63	3.35		5.95	0.72	2.69		0.01	0.13	0.05	9.56
OP																				
RS	2.41	3.16	0.08	5.65	0.85	3.41	0	0	9.91	3.20	3.38		6.57	0.85	3.75				-0.06	11.10
GS1	3.42	3.16	0.13	6.70	0.70	4.04	0	0	11.44	1.50	3.38		5.87	0.70	4.46			0.23	1.68	12.94
GS2	3.05	3.13	0.10	6.28	0.80	2.10	0	0	8.98	2.66	3.35		6.00	0.60	2.29		1.06	0.23	0.34	10.72
GS3	2.05	3.09	0.07	5.21	0.59	1.49	0	0	7.29	1.20	3.30		5.50	0.59	1.60		-0.19	0.22	0.10	7.83
GS4/WP	1.54	2.98	0.05	4.57	0.56	0.25	0	0	5.38	1.57	3.20		4.76	0.56	0.27		-0.31	0.22	-0.24	5.27
ENR	1.49	3.16	0.05	4.70	1.03	2.81	0	0	8.54	2.68	3.38		6.05	1.03	3.08			0.23	-0.84	9.75
ENS	0.00	3.16	0.00	3.16	0.65	0.81	0	0	4.62	2.70	3.38		6.08	0.65	0.84			0.23	-2.61	5.19
SS	2.47	3.16	0.08	5.71	0.65	2.15	0	0	8.51	2.70	3.38		6.08	0.65	2.34			0.23	0.12	9.43
FL	0.42	3.16	0.01	3.59	0.80	2.71	0	0	6.90	2.35	3.38		5.72	0.60	2.97			0.23	-1.49	8.04
OL	6.92	3.16	0.24	10.32	0.27	10.19	0	0	20.78	0.54	3.38		3.91	0.27	11.37			0.23	8.16	29.95
SL	7.37	3.16	0.25	10.78	0.27	7.51	0	0	18.56	0.54	3.38		3.92	0.27	8.38			0.23	7.82	20.62
SBS	45.79	2.94	1.56	50.33	19.77	41.27	0	0	111.37	69.20	3.20		72.39	19.77	46.24			0.22	-11.77	126.85
Subtotal	2.16	3.08	0.07	5.31	0.65	1.77	0	0	7.73	2.33	3.30		5.63	0.65	1.94		-0.01	0.16	0.06	8.43
AEP Ohio	2.10	3.29	0.09	5.48	0.68	2.05	0	0	8.21	2.45	3.31		5.76	0.68	2.24		0.00	0.15	0.06	8.88

Percentage Increase Over 2012 Rates Before Proposed ESP

8.16%

Percentage Increase Over Previous Year

8.16%

\*\* Reflects forecasted FAC from Case No. 11-281-EL-FAC  
 Reflects Distribution Investment Recovery Rider at Settlement maximum amount  
 Reflects Phase-In Recovery Rider on CSP and OP after ESP Remand.  
 Reflects No Phase-In Recovery Rider collection for CSP and OP residential customers  
 Reflects GS-1 & GS-2 School Exemption from Transition Rider  
 Reflects \$10 million shopping credit for GS-2  
 No estimate of potential Generation Resource Rider.

Source:

(a) Except the "2012 Base Gen.", all data in this Attachment are from Exhibit DMR-1 in testimony filed by David M. Roush on September 18, 2011. The "Base Gen." are the same as "Remand-Revised 2011 Base Generation Rate" in Attachment DJD-A.

REVISED ATTACHMENT DJD-E (2 of 2)

Remand-Revised 2012 Rates Before ESP and Summary of Stipulated Rate Increases

2013 Rates with Proposed ESP***												2014 Rates with Proposed ESP***											
	Base Gen.	FAC	Env.	Total Gen.	Current Trans.	Proj. Dist.	POUR	LF Rider	Phase-In Rider	Transition Rider	Total	Base Gen.	FAC	Env.	Total Gen.	Current Trans.	Proj. Dist.	POUR	LF Rider	Phase-In Rider	Transition Rider	Total	
CSP																							
RS	3.38	3.38		6.76	0.82	4.47			0.23	-0.25	12.04	3.58	3.38		6.95	0.82	4.56			0.23	-0.21	12.36	
GS1	2.64	3.38		6.02	0.70	4.08			0.23	2.06	13.06	2.79	3.38		6.17	0.70	4.13			0.23	1.79	13.02	
GS2	2.76	3.37		6.13	0.75	2.66		1.04	0.23	1.32	12.12	2.92	3.37		6.29	0.75	2.71		1.04	0.23	1.86	12.07	
GS3	2.40	3.38		5.78	0.58	1.74		-0.06	0.23	0.38	9.57	2.54	3.38		5.97	0.58	1.77		-0.06	0.23	0.33	9.68	
GS4/MP	2.03	3.20		5.23	0.70	0.31		-0.13	0.22	-0.38	5.77	2.14	3.20		5.34	0.70	0.31		-0.13	0.22	-0.46	5.58	
AL	0.58	3.38		3.94	0.22	15.57			0.23	3.38	23.34	0.59	3.38		3.97	0.22	15.92			0.23	3.19	23.53	
VL	0.57	3.38		3.95	0.22	1.38			0.23	1.38	24.63	0.58	3.38		3.96	0.22	1.38			0.23	1.77	24.76	
SBS	3.02	3.20		6.21	1.72	0.36			0.22	0.30	8.71	3.20	3.20		6.39	1.72	0.37			0.22	0.13	8.82	
Subtotal	2.76	3.33		6.09	0.72	2.74		0.01	0.23	0.00	9.79	2.92	3.33		6.24	0.72	2.79		0.01	0.23	0.00	10.00	
OP																							
RS	3.36	3.38		6.73	0.85	3.82			0.23	-0.05	11.57	3.55	3.38		6.92	0.85	3.89			0.23	-0.04	11.85	
GS1	2.62	3.38		6.00	0.70	4.54			0.23	1.49	12.95	2.77	3.38		6.15	0.70	4.63			0.23	1.30	13.01	
GS2	2.79	3.35		6.14	0.80	2.38		1.06	0.23	0.44	10.79	2.95	3.35		6.30	0.80	2.37		1.06	0.23	0.35	10.89	
GS3	2.31	3.38		5.62	0.59	1.63		-0.19	0.22	0.01	7.87	2.44	3.38		5.74	0.59	1.65		-0.19	0.22	0.02	8.04	
GS4/MP	1.66	3.20		4.86	0.96	0.28		-0.31	0.22	-0.29	5.31	1.77	3.20		4.97	0.96	0.28		-0.31	0.22	-0.25	5.47	
DHG	2.81	3.38		6.19	1.03	3.13			0.23	-0.54	10.05	2.97	3.38		6.35	1.03	3.19			0.23	-0.43	10.38	
DHS	2.83	3.38		6.21	0.65	0.84			0.23	-2.23	5.70	3.00	3.38		6.37	0.65	0.85			0.23	-1.82	6.28	
SS	2.84	3.38		6.21	0.65	1.38			0.23	0.11	9.58	3.00	3.38		6.38	0.65	1.42			0.23	0.09	9.77	
PL	2.46	3.38		5.84	0.80	3.02			0.23	-1.25	8.44	2.60	3.38		5.98	0.80	3.08			0.23	-1.03	8.89	
OL	0.56	3.38		3.94	0.27	1.82			0.23	7.27	23.32	0.59	3.38		3.97	0.27	1.87			0.23	6.47	22.81	
SL	0.57	3.38		3.95	0.27	1.55			0.23	6.94	23.94	0.60	3.38		3.98	0.27	1.74			0.23	6.15	23.36	
SBS	72.66	3.20		75.85	19.77	49.22			0.22	-11.62	151.45	76.13	3.20		79.33	19.77	48.52			0.22	-11.03	136.61	
Subtotal	2.45	3.30		5.75	0.65	3.97		-0.01	0.22	0.00	8.59	2.60	3.30		5.89	0.65	2.01		-0.01	0.22	0.00	8.77	
AEP Ohio	2.57	3.31		5.88	0.69	2.28		0.00	0.22	0.00	9.07	2.72	3.31		6.03	0.69	2.32		0.00	0.22	0.00	9.26	
Percentage Increase Over 2012 Rates Before Proposed ESP											10.48%											12.79%	
Percentage Increase Over Previous Year											2.14%											2.09%	

\*\*\* Reflects forecasted FAC from Case No. 11-281-BL-FAC.  
 Reflects Distribution Investment Recovery Rider at Settlement maximum amount.  
 Reflects Phase-In Recovery Rider on CSP and OP, but not potential securitization savings.  
 Reflects GS-1 & GS-2 School Exemption from Transition Rider.  
 Reflects \$20 million shopping credit for GS-2.  
 No estimate of potential Generation Resource Rider.

Sources:

(a) Except the "2012 Base Gen.", all data in this Attachment are from Exhibit DMR-1 in testimony filed by David M. Rowen on September 13, 2011. The "Base Gen." are the same as "Remand-Revised 2011 Base Generation Rate" in Attachment DJD-A.

# REVISED ATTACHMENT DID-F

## Summary of Stipulated Base Generation Rates Increase Based on Remand-Revised 2012 Base Generation Rates

		2012		2013		2014	
Remand-Revised 2012 Base Generation Rate*		Stipulated 2012 Base Generation Rate**	Percentage Change from 2011***	Stipulated 2013 Base Generation Rate**	Percentage Change from 2011***	Stipulated 2014 Base Generation Rate**	Percentage Change from 2011***
<b>CSP</b>							
RS	\$2.01	\$3.22	60%	\$3.38	68%	\$3.58	78%
GS1	\$4.57	\$2.52	-45%	\$2.64	-42%	\$2.79	-39%
GS2	\$4.40	\$2.63	-40%	\$2.76	-37%	\$2.92	-34%
GS3	\$2.20	\$2.29	4%	\$2.40	9%	\$2.54	15%
GS4/IRP	\$0.94	\$1.93	105%	\$2.03	116%	\$2.14	128%
AL	\$2.89	\$0.54	-81%	\$0.56	-81%	\$0.59	-80%
SL	\$1.81	\$0.54	-70%	\$0.57	-69%	\$0.60	-67%
SBS	\$2.79	\$2.88	3%	\$3.02	8%	\$3.20	15%
SUBTOTAL	\$2.02	\$2.63	30%	\$2.76	37%	\$2.92	45%
<b>OP</b>							
RS	\$2.41	\$3.20	33%	\$3.36	39%	\$3.55	47%
GS1	\$3.42	\$2.50	-27%	\$2.62	-23%	\$2.77	-19%
GS2	\$3.05	\$2.66	-13%	\$2.79	-9%	\$2.95	-3%
GS3	\$2.05	\$2.20	7%	\$2.31	13%	\$2.44	19%
GS4/IRP	\$1.54	\$1.57	2%	\$1.66	8%	\$1.77	15%
EHG	\$1.49	\$2.68	80%	\$2.81	89%	\$2.97	99%
ENS	\$0.00	\$2.70	#DIV/0!	\$2.83	#DIV/0!	\$3.00	#DIV/0!
SS	\$2.47	\$2.70	9%	\$2.84	15%	\$3.00	21%
FL	\$0.42	\$2.35	460%	\$2.46	486%	\$2.60	519%
OL	\$6.92	\$0.54	-92%	\$0.56	-92%	\$0.59	-91%
SL	\$7.37	\$0.54	-93%	\$0.57	-92%	\$0.60	-92%
SBS	\$45.79	\$69.20	51%	\$72.66	59%	\$76.13	66%
SUBTOTAL	\$2.16	\$2.33	8%	\$2.45	13%	\$2.60	20%
<b>AEP Ohio</b>							
	\$2.10	\$2.45	17%	\$2.57	22%	\$2.72	30%

### Sources:

\* Attachment DID-E.

\*\* Exhibit DMR-1 of testimony filed by David M. Roush on September 13, 2011.

\*\*\* Calculated as "Stipulated Base Generation Rates" divided by "Remand-Revised 2012 Base Generation Rate" minus 1.

# REVISED ATTACHMENT DID-G

## Summary of Stipulated Total Generation Rates Increase Based on Remand-Revised 2012 Total Generation Rates

		2012		2013		2014	
	Remand-Revised 2012 Total Generation Rate*	Stipulated 2012 Total Generation Rates**	Percentage Change from 2011***	Stipulated 2013 Total Generation Rates**	Percentage Change from 2011***	Stipulated 2014 Total Generation Rates**	Percentage Change from 2011***
CSP							
RS	\$5.77	\$6.60	14%	\$6.76	17%	\$6.95	20%
GS1	\$8.48	\$5.89	-31%	\$6.02	-29%	\$6.17	-27%
GS2	\$8.29	\$6.00	-28%	\$6.13	-26%	\$6.29	-24%
GS3	\$5.93	\$5.62	-5%	\$5.73	-3%	\$5.87	-1%
GS4/MP	\$4.45	\$5.13	15%	\$5.22	17%	\$5.34	20%
AL	\$6.70	\$3.91	-42%	\$3.94	-41%	\$3.97	-41%
SL	\$5.56	\$3.92	-29%	\$3.95	-29%	\$3.98	-28%
SBS	\$6.41	\$6.07	-5%	\$6.21	-3%	\$6.39	0%
SUBTOTAL	\$5.73	\$5.95	4%	\$6.09	6%	\$6.24	9%
OP							
RS	\$5.65	\$6.57	16%	\$6.73	19%	\$6.92	22%
GS1	\$6.70	\$5.87	-12%	\$6.00	-10%	\$6.15	-8%
GS2	\$6.28	\$6.00	-4%	\$6.14	-2%	\$6.30	0%
GS3	\$5.21	\$5.50	5%	\$5.61	8%	\$5.74	10%
GS4/MP	\$4.57	\$4.76	4%	\$4.86	6%	\$4.97	9%
EMG	\$4.70	\$6.05	29%	\$6.19	32%	\$6.35	35%
EHS	\$3.16	\$6.08	92%	\$6.21	97%	\$6.37	102%
SS	\$5.71	\$6.08	5%	\$6.21	9%	\$6.38	12%
FL	\$3.59	\$5.72	59%	\$5.84	63%	\$5.98	67%
OL	\$10.32	\$3.91	-62%	\$3.94	-62%	\$3.97	-62%
SL	\$10.78	\$3.92	-64%	\$3.95	-63%	\$3.98	-63%
SBS	\$50.33	\$72.39	44%	\$75.85	51%	\$79.33	58%
SUBTOTAL	\$5.31	\$5.63	6%	\$5.75	8%	\$5.89	11%
AEP Ohio	\$5.48	\$5.76	5%	\$5.88	7%	\$6.03	10%

### Sources:

\* Attachment DID-E.

\*\* Exhibit DMR-1 of testimony filed by David M. Roach on September 13, 2011.

\*\*\* Calculated as "Stipulated Total Generation Rates" divided by "Remand-Revised 2012 Total Generation Rate" minus 1.

# REVISED ATTACHMENT DID-H

## Summary of Stipulated Total Rates Increase Based on Remand-Revised 2012 Total Rates

		2012		2013		2014	
	Remand-Revised 2012 Total Rate*	Stipulated 2012 Total Rate**	Percentage Change from 2011***	Stipulated 2013 Total Rate**	Percentage Change from 2011***	Stipulated 2014 Total Rate**	Percentage Change from 2011***
<b>CSP</b>							
RS	\$10.59	\$11.53	9%	\$12.04	14%	\$12.36	17%
GS1	\$12.81	\$13.14	3%	\$13.06	2%	\$13.02	2%
GS2	\$11.45	\$12.21	7%	\$12.12	6%	\$12.07	5%
GS3	\$8.10	\$8.58	6%	\$8.57	6%	\$8.68	7%
GS4/WRP	\$5.43	\$5.69	5%	\$5.77	6%	\$5.98	10%
AL	\$20.58	\$23.24	13%	\$23.34	13%	\$23.53	14%
SL	\$13.16	\$14.56	11%	\$14.63	11%	\$14.76	12%
SBS	\$8.47	\$8.63	2%	\$8.71	3%	\$8.82	4%
SUBTOTAL	\$8.91	\$9.56	7%	\$9.79	10%	\$10.00	12%
<b>OP</b>							
RS	\$9.91	\$11.10	12%	\$11.57	17%	\$11.85	20%
GS1	\$11.44	\$12.94	13%	\$12.95	13%	\$13.01	14%
GS2	\$8.98	\$10.72	19%	\$10.79	20%	\$10.89	21%
GS3	\$7.29	\$7.83	7%	\$7.87	8%	\$8.04	10%
GS4/WRP	\$5.38	\$5.27	-2%	\$5.31	-1%	\$5.47	2%
ENG	\$8.54	\$9.75	14%	\$10.05	18%	\$10.38	22%
EHS	\$4.62	\$5.19	12%	\$5.70	23%	\$6.28	36%
SS	\$8.51	\$9.43	11%	\$9.58	13%	\$9.77	15%
FL	\$6.90	\$8.04	17%	\$8.44	22%	\$8.89	29%
OL	\$20.78	\$23.95	15%	\$23.32	12%	\$22.81	10%
SL	\$18.56	\$20.62	11%	\$19.94	7%	\$19.36	4%
SBS	\$111.37	\$126.85	14%	\$131.45	18%	\$136.61	23%
SUBTOTAL	\$7.73	\$8.43	9%	\$8.59	11%	\$8.77	13%
<b>AEP Ohio</b>							
	\$8.21	\$8.88	8%	\$9.07	10%	\$9.26	13%

### Sources:

\* Attachment DID-E.

\*\* Exhibit DMR-1 of testimony filed by David M. Roush on September 13, 2011.

\*\*\* Calculated as "Stipulated Total Rate" divided by "Remand-Revised 2012 Total Rate" minus 1.



**Share of Total Revenue Increases by Customer Class Under Stipulated Rates (Based on Remand-Revised 2012 Rates Before Proposed ESP)**

SOURCES:

- \*\*\* Work Paper to Exhibit D446-1 of testimony filed by David M. South on September 12, 2011.
- \*\*\* Attachment 580-d.
- \*\*\* Calculated as the product of "Total Now" times "2012 Energy B/W".
- \*\*\* Exhibit D446-1 of testimony filed by David M. South on September 22, 2011.
- \*\*\*\* Calculated as the difference between the estimated total revenues in each year of 2012 to 2024 and the estimated 2011 total revenue after demand adjustments.
- \*\*\*\*\* Calculated as the share of interest in total revenue by customer class.

### Sources:

\* Work Paper in Exhibit DASH-1 of testimony filed by David M. South on September 12, 2011.

Attachment 202-2.

\*\*\* Calculated as the product of "Total ROW" times "2012 Energy Intensity".

0-9  
Public 2025-1 of Executive Order by Donald M. Trump on September 22, 2025

\*\*\*\* Calculated as the difference between the estimated total revenues in each year of 2012 in 2004 and the estimated 2011 total revenue after demand adjustments.

Calculated as the share of increase in total revenue by customer class.

# ATTACHMENT DID-K

## Total Revenue Increases by Customer Class Under Stipulated Rates (Based on AEP Ohio's 2012 Rates Before Proposed ESP)

		2012 Energy (kWh)*	AEP Ohio's 2012 Rates Before ESP**	Total Revenue Based on 2011 Rate***	Stipulated 2012 Total Rate***	Total Revenue Based on 2012 Rate***	2012 Increase in Revenue Under Stipulated Rate*****	Stipulated 2013 Total Rate**	Total Revenue Based on 2013 Rate***	2013 Increase Over 2011 in Revenue Under Stipulated Rate*****	Stipulated 2014 Total Rate**	Total Revenue Based on 2014 Rate***	2014 Increase Over 2011 in Revenue Under Stipulated Rate*****	2012 to 2014 Total Increase in Revenue
CSP		100 kWh		100 kWh		100 kWh		100 kWh		100 kWh		100 kWh		
	RS	7,470,809,140	\$11.16	\$833,742,311	\$11.53	\$861,384,905	\$27,641,994	\$12.04	\$899,485,432	\$38,103,527	\$12.36	\$923,392,022	\$23,907,587	\$183,034,826
	GS1	225,396,919	\$13.29	\$29,955,251	\$13.14	\$29,617,155	-\$338,095	\$13.06	\$29,436,838	-\$18,413	\$13.02	\$29,346,679	-\$608,572	-\$1,465,080
	GS2	1,090,292,537	\$11.95	\$130,289,958	\$12.21	\$133,124,719	\$2,834,761	\$12.12	\$132,143,455	\$1,853,497	\$12.07	\$131,598,309	\$1,308,351	\$5,996,609
	GS3	4,901,182,198	\$8.48	\$415,620,250	\$8.58	\$420,521,433	\$4,901,182	\$8.57	\$420,031,314	\$4,411,064	\$8.68	\$425,422,615	\$9,802,364	\$19,114,611
	GS4/IRP	3,700,591,045	\$5.76	\$213,154,044	\$5.89	\$210,563,630	-\$2,590,414	\$5.77	\$213,524,108	\$370,059	\$5.98	\$221,295,344	\$8,141,300	\$3,920,946
	AL	38,378,842	\$20.75	\$7,963,610	\$23.24	\$8,929,243	\$965,633	\$23.34	\$8,957,622	\$994,012	\$23.53	\$9,030,542	\$1,066,932	\$3,016,577
	SL	43,108,463	\$13.34	\$5,750,002	\$14.56	\$6,275,864	\$525,862	\$14.63	\$6,306,037	\$356,035	\$14.76	\$6,362,071	\$612,069	\$1,693,966
	SBS	4,245,758	\$8.87	\$376,599	\$8.63	\$366,409	-\$10,190	\$8.71	\$369,806	-\$6,793	\$8.82	\$374,476	-\$2,123	-\$19,106
	SUBTOTAL	17,474,000,002	\$9.37	\$1,637,313,800	\$9.56	\$1,670,514,400	\$33,920,733	\$9.79	\$1,710,704,600	\$73,390,800	\$10.00	\$1,747,400,000	\$110,086,200	\$217,397,733
OP	RS	7,335,376,957	\$10.65	\$781,217,646	\$11.10	\$814,226,842	\$33,009,196	\$11.57	\$848,703,114	\$37,486,268	\$11.85	\$889,242,169	\$48,024,523	\$188,519,188
	GS1	356,212,396	\$12.20	\$43,457,912	\$12.94	\$46,093,884	\$2,635,972	\$12.95	\$46,129,505	\$35,592	\$13.01	\$46,343,233	\$2,885,320	\$8,192,885
	GS2	3,383,968,182	\$9.75	\$329,936,898	\$10.72	\$362,761,389	\$32,824,491	\$10.79	\$365,130,167	\$35,193,269	\$10.89	\$368,514,135	\$38,577,237	\$106,594,998
	GS3	6,182,567,492	\$7.97	\$492,750,629	\$7.83	\$484,095,035	-\$8,655,594	\$7.87	\$486,568,062	-\$6,182,567	\$8.04	\$497,078,426	\$4,327,797	-\$10,510,365
	GS4/IRP	8,583,788,928	\$6.01	\$515,885,715	\$5.27	\$452,365,677	-\$63,520,038	\$5.31	\$455,799,192	-\$60,086,522	\$5.47	\$469,533,254	-\$46,352,460	-\$169,959,021
	ENS	22,091,076	\$9.34	\$2,059,570	\$9.75	\$2,149,980	\$90,409	\$10.05	\$2,216,133	\$156,563	\$10.38	\$2,288,902	\$229,331	\$476,303
	ENS	397,293	\$5.50	\$2,185	\$5.19	\$2,020	-\$1,232	\$5.70	\$22,646	\$725	\$6.28	\$24,950	\$3,099	\$2,662
	SS	41,829,329	\$9.31	\$3,894,311	\$9.43	\$3,944,506	\$50,195	\$9.58	\$4,007,250	\$112,939	\$9.77	\$4,086,725	\$192,415	\$355,549
	FL	513,289	\$7.68	\$39,421	\$8.04	\$41,268	\$1,848	\$8.44	\$43,322	\$3,901	\$8.89	\$45,631	\$6,211	\$11,960
	OL	56,043,254	\$21.34	\$11,959,630	\$23.95	\$13,422,359	\$1,462,729	\$23.32	\$13,069,287	\$1,109,656	\$22.83	\$12,783,466	\$823,836	\$3,396,221
	SL	66,518,375	\$19.13	\$12,724,583	\$20.62	\$13,715,677	\$991,094	\$19.94	\$13,263,365	\$538,783	\$19.36	\$12,877,570	\$152,988	\$1,682,864
	SBS	235,436	\$112.02	\$263,735	\$126.85	\$298,651	\$34,915	\$131.45	\$309,481	\$45,745	\$136.61	\$321,629	\$57,894	\$138,554
	SUBTOTAL	26,029,500,007	\$8.43	\$2,194,286,851	\$8.43	\$2,194,286,851	-\$1,076,014	\$8.59	\$2,235,934,051	\$41,647,200	\$8.77	\$2,282,787,151	\$88,500,300	\$129,071,486
<hr/>														
AEP Ohio		43,503,500,009	\$8.81	\$3,832,658,351	\$8.88	\$3,863,110,801	\$30,452,450	\$9.07	\$3,945,767,451	\$113,109,100	\$9.26	\$4,028,424,101	\$195,765,750	\$339,327,300

### Sources:

\* Work Paper to Exhibit DMA-1 of testimony filed by David M. Roush on September 13, 2011.

\*\* Exhibit DMA-1 of testimony filed by AEP witness David M. Roush on September 13, 2011.

\*\*\* Calculated as the product of "Total Rate" times "2012 Energy (kWh)".

\*\*\*\* Exhibit DMA-1 of testimony filed by David M. Roush on September 13, 2011.

\*\*\*\*\* Calculated as the difference between the estimated total revenues in each year of 2012 to 2014 and the estimated 2011 total revenue after demand adjustments.

**REVISED ATTACHMENT DJD-J**

**Summary Comparison of ESP and MRO Generation Rates and Generation Revenues for AEP Ohio**

	Baseline ESP			MRO		Stipulated ESP			Comparison		
	Remand- Revised 2011 Total Generation Rate	Transmission Adjustment	Baseline ESP Rate	Staff Projected Market Price	MRO Rate	Stipulated Total Generation Rates	Transmission Adjustment	Stipulated Rates Plus Transmission	Stipulated ESP Rate over MRO Rate	2012 Energy (kWh)	Yearly Costs of ESP over MRO
	(a)	(b)	(c)	(d)	(e)	(f)	(b)	(b)		(g)	
	100kWh	100kWh	100kWh	100kWh	100kWh	100kWh	100kWh	100kWh	100kWh		
<b>2012</b>											
<b>CSP</b>	\$5.73	\$0.2140	\$5.9440	\$5.8850	\$5.9381	\$5.9500	\$0.2140	\$6.1640	\$0.2259	17,474,000,002	\$39,473,766
<b>OP</b>	\$5.31	\$0.2140	\$5.5240	\$5.8850	\$5.5601	\$5.6300	\$0.2140	\$5.8440	\$0.2839	26,029,500,007	\$73,897,751
<b>AEP Ohio</b>	\$5.48	\$0.2140	\$5.6940	\$5.8850	\$5.7131	\$5.7800	\$0.2140	\$5.9740	\$0.2609	43,503,500,009	\$113,500,632
<b>2013</b>											
<b>CSP</b>	\$5.73	\$0.2140	\$5.9440	\$6.1380	\$5.9828	\$6.0900	\$0.2140	\$6.3040	\$0.3212	17,474,000,002	\$56,126,488
<b>OP</b>	\$5.31	\$0.2140	\$5.5240	\$6.1380	\$5.6468	\$5.7500	\$0.2140	\$5.9640	\$0.3172	26,029,500,007	\$82,565,574
<b>AEP Ohio</b>	\$5.48	\$0.2140	\$5.6940	\$6.1380	\$5.7828	\$5.8800	\$0.2140	\$6.0940	\$0.3112	43,503,500,009	\$135,382,892
<b>2014</b>											
<b>CSP</b>	\$5.73	\$0.2140	\$5.9440	\$6.7485	\$6.1854	\$6.2400	\$0.2140	\$6.4540	\$0.2687	17,474,000,002	\$46,943,901
<b>OP</b>	\$5.31	\$0.2140	\$5.5240	\$6.7485	\$5.8914	\$5.8900	\$0.2140	\$6.1040	\$0.2127	26,029,500,007	\$55,351,732
<b>AEP Ohio</b>	\$5.48	\$0.2140	\$5.6940	\$6.7485	\$6.0104	\$6.0900	\$0.2140	\$6.2440	\$0.2337	43,503,500,009	\$101,645,928
<b>Grand Total (2012 - 2014)</b>											
<b>AEP Ohio</b>											\$350,529,451

**Sources:**

(a) Attachment DND-6.

(b) Attachment A of testimony of Staff witness Robert B. Fortney filed on September 13, 2011.

(c) Calculated as the sum of "Remand-Revised 2011 Total Generation Rate" and "Transmission Adjustment".

(d) Attachment A of testimony of Staff witness Robert B. Fortney filed on September 13, 2011.

(e) Calculated based on the Blending Rule specified in the Statute.

(f) Exhibit DMR-1 of testimony filed by AEP witness David M. Roush on September 13, 2011.

(g) Work Paper to Exhibit DMR-1 of testimony filed by David M. Roush on September 13, 2011.

**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

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**REVISED DIRECT TESTIMONY OF JOSEPH G. BOWSER  
ON BEHALF OF INDUSTRIAL ENERGY USERS-OHIO**

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**October 13, 2011**

**Attorneys for Industrial Energy Users-Ohio**

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of	)	
Ohio Power Company and Columbus	)	Case No. 10-2376-EL-UNC
Southern Power Company for Authority	)	
to Merge and Related Approvals.	)	

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

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

In the Matter of the Application of	)	
Columbus Southern Power Company to	)	Case No. 10-343-EL-ATA
Amend its Emergency Curtailment	)	
Service Riders.	)	

In the Matter of the Application of	)	
Ohio Power Company to Amend its	)	Case No. 10-344-EL-ATA
Emergency Curtailment Service Riders.	)	

In the Matter of the Commission Review	)	
Of the Capacity Charges of Ohio Power	)	Case No. 10-2929-EL-UNC
Company and Columbus Southern	)	
Power Company.	)	

In the Matter of the Application of	)	
Columbus Southern Power Company	)	Case No. 11-4920-EL-RDR
for Approval of a Mechanism to Recover	)	
Deferred Fuel Costs Ordered Under	)	
Ohio Revised Code 4928.144.	)	

In the Matter of the Application of	)	
Ohio Power Company for Approval of a	)	
Mechanism to Recover Deferred Fuel	)	Case No. 11-4921-EL-RDR
Costs Ordered Under Ohio Revised	)	
Code 4928.144.	)	

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**REVISED DIRECT TESTIMONY OF JOSEPH G. BOWSER  
ON BEHALF OF INDUSTRIAL ENERGY USERS-OHIO**

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**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of	)	
Ohio Power Company and Columbus	)	Case No. 10-2376-EL-UNC
Southern Power Company for Authority	)	
to Merge and Related Approvals.	)	

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

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

In the Matter of the Application of	)	
Columbus Southern Power Company to	)	Case No. 10-343-EL-ATA
Amend its Emergency Curtailment	)	
Service Riders.	)	

In the Matter of the Application of	)	
Ohio Power Company to Amend its	)	Case No. 10-344-EL-ATA
Emergency Curtailment Service Riders.	)	

In the Matter of the Commission Review	)	
Of the Capacity Charges of Ohio Power	)	Case No. 10-2929-EL-UNC
Company and Columbus Southern	)	
Power Company.	)	

In the Matter of the Application of	)	
Columbus Southern Power Company	)	Case No. 11-4920-EL-RDR
for Approval of a Mechanism to Recover	)	
Deferred Fuel Costs Ordered Under	)	
Ohio Revised Code 4928.144.	)	

In the Matter of the Application of	)	
Ohio Power Company for Approval of a	)	
Mechanism to Recover Deferred Fuel	)	Case No. 11-4921-EL-RDR
Costs Ordered Under Ohio Revised	)	
Code 4928.144.	)	



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**REVISED DIRECT TESTIMONY OF JOSEPH G. BOWSER  
ON BEHALF OF INDUSTRIAL ENERGY USERS-OHIO**

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1    **I.     INTRODUCTION**

2    **Q1.    Please state your name and business address.**

3    A1.    Joseph G. Bowser, 21 East State Street, 17<sup>th</sup> Floor, Columbus, Ohio 43215.

4    **Q2.    By whom are you employed and in what position?**

5    A2.    I am a Technical Specialist for McNees Wallace & Nurick LLC ("McNees")  
6        providing testimony on behalf of the Industrial Energy Users-Ohio ("IEU-Ohio").

7    **Q3.    Please describe your educational background.**

8    A3.    In 1976, I graduated from Clarion State College with a Bachelor of Science  
9        degree in Accounting. In 1988, I graduated from Rensselaer Polytechnic Institute  
10       with a Master of Science degree in Finance.

11   **Q4.    Please describe your professional experience.**

12   A4.    I have been employed by McNees for over five years where I focus on assisting  
13        IEU-Ohio members address issues that affect the price and availability of utility  
14        services. Prior to joining McNees, I worked with the Office of the Ohio  
15        Consumers' Counsel ("OCC") as Director of Analytical Services. There I  
16        managed the analysis of financial, accounting, and ratemaking issues associated  
17        with utility regulatory filings. I also spent ten years at Northeast Utilities, where I  
18        held positions in the Regulatory Planning and Accounting departments of the

1 company, provided litigation support in regulatory hearings and assisted in the  
2 preparation of the financial/technical documents filed with state and federal  
3 regulatory commissions. I began my career with the Federal Energy Regulatory  
4 Commission ("FERC"), where I led and conducted audits of gas and electric  
5 utilities in the Eastern and Midwestern regions of the United States.

6 **Q5. Have you previously submitted expert testimony before the Public Utilities**  
7 **Commission of Ohio ("Commission")?**

8 A5. Yes, since 1996, I have submitted testimony as an expert on numerous  
9 regulatory accounting issues and how those issues should be resolved for  
10 purposes of establishing rates and charges of public utilities. More specifically, I  
11 have submitted expert testimony in the following cases: *In the Matter of the*  
12 *Application of The East Ohio Gas Company for Authority to Implement Two New*  
13 *Transportation Services, for Approval of a New Pooling Agreement, and for*  
14 *Approval of a Revised Transportation Migration Rider, Case No.*  
15 *96-1019-GA-ATA; In the Matter of the Applications of Columbus Southern Power*  
16 *Company and Ohio Power Company for Approval of Their Electric Transition*  
17 *Plans and for Receipt of Transition Revenues, Case Nos. 99-1729-EL-ETP, et*  
18 *al.; In the Matter of the Commission's Investigation Into the Policies and*  
19 *Procedures of Ohio Power Company, Columbus Southern Power Company, The*  
20 *Cleveland Electric Illuminating Company, Ohio Edison Company, The Toledo*  
21 *Edison Company and Monongahela Power Company Regarding the Installation*  
22 *of New Line Extensions, Case Nos. 01-2708-EL-COI, et al.; In the Matter of the*  
23 *Application of Columbus Southern Power Company to Adjust its Power*

1        *Acquisition Rider Pursuant to Its Post-Market Development Period Rate*  
2        *Stabilization Plan, Case No. 07-333-EL-UNC; In the Matter of the Application of*  
3        *Ohio Edison Company, The Cleveland Electric Illuminating Company and The*  
4        *Toledo Edison Company for Authority to Increase Rates for Distribution Service,*  
5        *Modify Certain Accounting Practices and for Tariff Approvals, Case Nos.*  
6        *07-551-EL-AIR, et al.; In the Matter of the Application of Ohio Edison Company,*  
7        *The Cleveland Electric Illuminating Company, and The Toledo Edison Company*  
8        *for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143,*  
9        *Revised Code, in the Form of an Electric Security Plan, Case No.*  
10       *08-935-EL-SSO; In the Matter of the Application of Columbus Southern Power*  
11       *Company for Approval of its Electric Security Plan; an Amendment to its*  
12       *Corporate Separation Plan, and the Sale or Transfer of Certain Generating*  
13       *Assets, Case Nos. 08-917-EL-SSO, et al.; In the Matter of the Application of The*  
14       *Dayton Power and Light Company for Approval of Its Electric Security Plan, Case*  
15       *Nos. 08-1094-EL-SSO, et al.; In the Matter of the Application of Columbus*  
16       *Southern Power Company and Ohio Power Company for Authority to Establish a*  
17       *Standard Service Offer Pursuant to §4928.143, Ohio Rev. Code, in the Form of*  
18       *an Electric Security Plan, Case Nos. 11-346-EL-SSO, et al.; and the remand*  
19       *phase of Case Nos. 08-917-EL-SSO, et al. already listed above.*

20    **Q6. What is the purpose of your testimony in this proceeding?**

21    A6. My testimony addresses certain aspects of the Stipulation and Recommendation  
22       filed in these proceedings on September 7, 2011 ("Stipulation") and explains why  
23       the Stipulation fails to meet the three-prong test that the Commission uses to

1 evaluate the reasonableness of settlements for purposes of resolving contested  
2 issues.

3 **Q7. What did you review for purposes of preparing your testimony in**  
4 **opposition to the Stipulation?**

5 A7. For the purpose of preparing my testimony, I reviewed the Stipulation, the direct  
6 testimony submitted by parties including the Commission Staff ("Staff"), the  
7 testimony filed in support of the Stipulation, discovery responses and  
8 Commission entries filed in this case. My opinions and recommendations also  
9 reflect the knowledge I have accumulated throughout my career.

10 **Q8. What is your understanding of the three-prong test that you mentioned**  
11 **earlier in your testimony?**

12 A8. Based on the advice of counsel, it is my understanding that the Commission  
13 applies a three-prong test for purposes of determining the lawfulness and  
14 reasonableness of settlements as such settlements apply to the resolution of  
15 contested issues. The three prongs of the test are:

- 16 1) The stipulation must be a product of serious bargaining among  
17 capable, knowledgeable parties;
- 18 2) The stipulation must, as a package, benefit ratepayers and the  
19 public interest; and,
- 20 3) The stipulation must not violate any important regulatory principle  
21 or practice.

1 It is my understanding that a settlement cannot operate to delegate authority to  
2 the Commission or disrespect procedural or substantive requirements  
3 established by the General Assembly or the Commission's own rules.

## 4 II. DISTRIBUTION INVESTMENT RIDER ("DIR")

5 **Q9. Please describe the DIR included in the Stipulation.**

6 A9. The Stipulation, in Section IV.1.n beginning at page 8, recommends that the  
7 Commission approve a non-bypassable DIR to be effective January 1, 2012.  
8 The recommended DIR would permit significant rate increases and reach back to  
9 post-2000 investment for purposes of computing the amount of the rate  
10 increases. The recommended carrying charge rate component of the DIR  
11 includes elements for property taxes, commercial activity taxes, associated  
12 income taxes and a return "on" and "of" plant in-service associated with  
13 distribution net investment associated with distribution plant recorded in FERC  
14 Accounts 360 - 374. The post-2000 net capital additions that drive the DIR rate  
15 increases reflect gross plant in-service amounts adjusted for growth in  
16 accumulated depreciation. The DIR rate increases included a rate of return  
17 earned on such plant that is based on a cost of debt of 5.34%, a cost of preferred  
18 stock of 4.40%, and a return on equity of 10.5%, utilizing a capital structure  
19 consisting of 47.06% debt, 0.19% preferred stock, and 52.75% common equity.  
20 The DIR rate increases are capped at \$86 million in 2012, \$104 million in 2013,  
21 and \$124 million in 2014; and the rider will terminate on May 31, 2015. Based on  
22 information provided by Columbus Southern Power Company ("CSP") and Ohio

1 Power Company ("OPCo") (collectively the "Companies"), it is my understanding  
2 that the Companies expect the DIR increase for 2012 to reach the \$86 million  
3 cap amount.

4 **Q10. In your opinion, is the DIR recommended in the Stipulation reasonable?**

5 **A10.** No. Based on advice of counsel, it is my understanding that the Ohio Supreme  
6 Court has held that the Commission is without authority to authorize such  
7 mechanisms like DIR, unless there is clear and specific statutory authority to do  
8 so. It is my understanding that the parties advancing the Stipulation ESP have  
9 the burden of demonstrating that the Stipulation ESP is lawful and reasonable.  
10 My review of the Stipulation and the testimony that has been filed in support of  
11 the Stipulation indicates that none of the Signatory Parties have identified the  
12 portions of Section 4928.143, Revised Code, that the settlement parties believe  
13 authorize the Commission to enable the DIR recommended by the Stipulation.  
14 By failing to provide support for the authority for establishing the recommended  
15 DIR, the recommended DIR mechanism fails the third prong of the three-prong  
16 test, that the Stipulation must not violate any important regulatory principle or  
17 practice. Additionally, neither the Stipulation nor the testimony offered in support  
18 of the Stipulation contains a specific analysis of what assets would be replaced, a  
19 concrete methodology to target the asset improvement/replacements, or any  
20 expected quantifiable tangible improvement to reliability measured by customer  
21 outages or power quality indices. Thus, the DIR recommended in the Stipulation  
22 suffers from the same problems that caused Staff member Doris McCarter to  
23 recommend that the DIR proposed in the Companies' ESP application should not

1 be approved. Regardless of Ms. McCarter's views, the DIR recommended in the  
2 Stipulation is unaccompanied by any examination of reliability of the utility's  
3 distribution system or the other requirements in Section 4928.143(B)(2)(h),  
4 Revised Code, that I understand must be satisfied before an ESP may include  
5 any provision regarding an electric distribution utility's ("EDU") distribution  
6 service.

7 **Q11. Does the DIR recommended in the Stipulation violate other regulatory**  
8 **principles or practices?**

9 A11. Yes. Because the DIR recommended in the Stipulation is a non-bypassable  
10 stand-alone rider, the Companies' financial and business risk associated with this  
11 rider is reduced below the financial and business risk associated with returns that  
12 would apply in a rate case proceeding. Therefore, and relatively speaking, the  
13 return component of the recommended DIR should reflect this lower business  
14 and financial risk condition. The Companies have indicated that their weighted  
15 average long-term debt cost is approximately 5.34% on a combined basis. The  
16 weighted average cost of capital ("WACC") rate described earlier that is included  
17 in the Stipulation for DIR, results in a carrying cost rate that is grossed up for  
18 taxes of 11.23%, per Companies' witness Allen on Exhibit WAA-2, page 2.  
19 Therefore, by utilizing the current weighted average cost of long-term debt in lieu  
20 of a WACC rate, carrying charges would be reduced by more than 50%.

21 **Q12. You have identified that the DIR recommended in the Stipulation also calls**  
22 **for an allowance for property taxes, commercial activity taxes, associated**

1 income taxes, and return of (depreciation) certain distribution plant in-  
2 service. Were the effects of including these items identified in the  
3 Stipulation?

4 A12. No. These components of the DIR were not quantified in the Stipulation.  
5 Companies' witness Allen did provide a calculation of property taxes and  
6 commercial activity taxes but there is no calculation supporting the associated  
7 income taxes or depreciation.

8 Q13. Can you describe why good regulatory practice requires that these  
9 components be quantified and that the quantification methodology be  
10 specifically described?

11 A13. Yes. I can illustrate by example. For tax purposes, the Companies are allowed  
12 to take a deduction against taxable income that is calculated using accelerated  
13 depreciation of capital investments. The tax accelerated depreciation initially  
14 exceeds "book" or "straight line" depreciation used for traditional rate-base-rate-  
15 of-return economic regulation. This difference in tax expense creates a tax  
16 advantage that, according to standard regulatory practices, needs to be  
17 accounted for in any carrying cost calculation that is adopted for ratemaking  
18 purposes. The Stipulation recommends a carrying cost rate that provides for  
19 "associated income taxes" but fails to identify if the benefit the Companies  
20 acquire from accelerated depreciation is to be recognized in the carrying cost  
21 calculation. The Companies have omitted the recognition of this benefit in  
22 computing carrying charges in similar circumstances so the Stipulation's failure to  
23 address this issue implies that customers will be deprived of this benefit.



1 **Q14. Are there any other regulatory principles or practices that are violated by**  
2 **the DIR recommended in the Stipulation?**

3 A14. Yes. The recommended DIR rate increases are based on post-2000 distribution  
4 plant investments. As I indicated earlier, the DIR reaches back in time effectively  
5 presuming that the distribution revenues collected by the Companies after 2000  
6 were not adequate to provide the Companies with just and reasonable  
7 compensation. In view of the Commission's determination that CSP had  
8 significantly excessive earnings in 2009, this presumption seems to be  
9 inconsistent with prior determinations of the Commission. I would also note that  
10 driving rate increases based on post-2000 investment effectively evades the  
11 distribution rate freeze that the Companies agreed to as part of the resolution of  
12 the Companies' Rate Stabilization Plan proceedings in Case No. 04-169-EL-UNC  
13 and the total rate cap established during the Market Development Period  
14 (commencing January 1, 2001) that is described by Mr. Murray in his testimony.  
15 Additionally, OPCo and CSP currently have applications to increase distribution  
16 rates pending in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR and the date  
17 certain which has been approved by the Commission for purposes of identifying  
18 the rate base valuation is August 31, 2010. The Staff Reports of Investigation  
19 ("Staff Report") in the two rate cases were recently filed on September 15, 2011.  
20 The Staff Reports address the DIR proposal contained in the Companies' ESP  
21 application and contain a recommendation that a plant investment baseline for  
22 the year 2000 not be used until the Commission renders a decision in the  
23 pending rate increase proceedings. The Staff Reports also find that CSP's

1 current distribution rates are too high (by between \$9.5 million and \$2.3 million)  
2 and that OPCo's current distribution rates could be increased. On a net and  
3 combined basis, the Staff Reports recommend that any distribution rate increase  
4 should be between about \$13.7 million and \$29.6 million, based on the net  
5 distribution rate base "used and useful" as of August 31, 2010 (the date certain).  
6 Based on the findings in the Staff Reports, the rate increases that would result  
7 from the DIR recommended in the Stipulation are clearly excessive, unjust and  
8 unreasonable. If the DIR recommended in the Stipulation is adopted and if the  
9 distribution rate increase proposed in the Companies' rate increase applications  
10 or recommended in the Staff Reports are approved by the Commission, the total  
11 distribution rate increase that the Companies will be permitted to impose will  
12 provide the Companies with an unwarranted and unreasonable windfall profit.  
13 And, from a regulatory practice and principle perspective, the amount of any rate  
14 increase or decrease that the Commission should authorize should be based on  
15 the cost of service determined in the rate increase proceedings and not driven by  
16 the backward-looking arbitrary increase that would occur if the DIR  
17 recommended in the Stipulation is adopted. I also believe that it would be  
18 unreasonable for the Commission to allow a rate increase through a DIR-like  
19 mechanism for the Companies on any investment prior to the date certain in the  
20 pending rate increase proceedings.

21 **Q15. Are there inconsistencies between the CSP and OPCo Staff Reports in the**  
22 **distribution rate cases and the DIR recommended by the Stipulation?**

1 A15. Yes. The rate of return range recommended in the Staff Reports is based on a  
2 cost of common equity of 8.6% to 9.6%. The return on the equity component of  
3 the DIR recommended in the Stipulation is 10.5% and, as I indicated previously,  
4 it is unaccompanied by any cost of equity capital evidence. Regardless of this  
5 inconsistency, a return on common equity of 10.5% is unreasonable based on  
6 current cost of capital considerations and the DIR's lowering of the Companies'  
7 business and financial risk

8 **III. PHASE-IN RECOVERY RIDER ("PIRR") / SECURITIZATION**

9 **Q16. What does the Stipulation recommend regarding the PIRR?**

10 A16. Beginning at page 25, the Stipulation recommends that the Commission approve  
11 a PIRR. As recommended, the PIRR will commence January 1, 2012 for non-  
12 residential customers and will include a debt carrying charge rate of 5.34% and is  
13 calculated with no adjustment to the book balance as of year-end 2011 (the  
14 "Modified PIRR"). The Modified PIRR will be in place for the entire amortization  
15 period or until the unamortized PIRR balance is "securitized", whichever comes  
16 first. Collection of the PIRR will be delayed for 12 months for residential  
17 customers, subject to two conditions: (1) if securitization is completed by the end  
18 of 2012, the additional carrying costs related to the actual delay in commencing  
19 the residential collection period will be included in the unamortized balance for  
20 collection from all customers; (2) if securitization is not completed by the end of  
21 2012, the Modified PIRR will commence effective January 1, 2013 for residential  
22 customers (and the Modified PIRR will continue for non-residential customers)

1 and the additional carrying charges related to the 12-month delay of commencing  
2 the residential collection period will be included in the unamortized balance for  
3 collection from all customers.

4 The Stipulation also provides that the Signatory Parties agree to support the  
5 concept of securitization for the phase-in deferral associated with the PIRR, and  
6 to work in good faith to pass suitable and appropriate legislation to address the  
7 matter as expeditiously as reasonably possible and to support any subsequent  
8 tariff approvals needed by the Companies to securitize the PIRR phase-in  
9 deferral.

10 **Q17. Do you believe the PIRR mechanism and securitization components in the**  
11 **Stipulation are appropriate and consistent with regulatory practices and**  
12 **principals?**

13 **A17. No. There are several reasons why I believe these components of the**  
14 **Stipulation are inappropriate and violate important regulatory practices and**  
15 **principals.**

16 First, the PIRR recommended in the Stipulation functions to establish a charge  
17 that will permit rates to increase to recover a previously authorized increase that  
18 was delayed by the Commission pursuant to Section 4928.144, Revised Code,  
19 for the benefit of OPCo customers only. The Stipulation recommends that the  
20 PIRR be applied to both CSP and OPCo customers. There is no reason that  
21 CSP customers should be subjected to the PIRR charges; CSP customers have  
22 already compensated CSP for the CSP phase-in deferral authorized by the

1 Commission in the Companies' current ESP. Any benefit derived by the phase-in  
2 deferral amount that the Stipulation proposes to amortize through the PIRR is a  
3 benefit confined to OPCo customers, not CSP customers. As explained by  
4 Mr. Murray, the recommended PIRR produces a mismatch between the  
5 customers that received benefits and the customers who end up being  
6 responsible for paying for the benefits. As I explain below, the amount of the  
7 benefit actually derived by the OPCo customers is substantially less than the  
8 amount that the Stipulation would allow the PIRR to begin to recover and  
9 reducing the phase-in deferral as I have recommended will significantly reduce  
10 the bill impacts of any properly structured phase-in deferral recovery mechanism  
11 approved by the Commission.

12 Further, and based on the advice of counsel, Section 4928.20(I), Revised Code,  
13 precludes the application of the PIRR to a community aggregation program  
14 where the charge is not proportionate to the benefits received by the customers  
15 in the community aggregation group. As noted above, any benefit provided by  
16 the phase-in deferral subject to amortization through the recommended PIRR  
17 benefitted OPCo customers exclusively. Thus, the application of the  
18 recommended PIRR to both CSP and OPCo customers without exception for  
19 community aggregation programs in CSP's service area is unlawful, per the  
20 advice of counsel.

21 Second, the PIRR recommended in the Stipulation calls for carrying charges  
22 during the amortization period to be applied to a balance that has not been

1 reduced for accumulated deferred income taxes ("ADIT") consistent with  
2 regulatory practices and principles. The deferrals associated with the PIRR  
3 cause a timing difference between the tax deduction and the book accounting  
4 treatment. The timing difference reduces the Companies' federal income tax  
5 liability before the Companies recognize the expense and collect it from  
6 customers. That timing difference should be used to reduce the deferred  
7 balance to which the carrying cost rate is applied. The ADIT would amount to  
8 approximately 35% of the regulatory asset balance. In short, the ADIT  
9 represents tax savings realized by the Companies. As a result of these tax  
10 savings, the Companies are not financing 100% of the deferral, but only the  
11 deferral amount net of the ADIT. The gross method proposed by the Stipulation  
12 violates important regulatory principles and practices.

13 Third, and as I discuss in more detail later in my testimony, adjustments to  
14 remove the revenue from provider of last resort ("POLR") charges and carrying  
15 charges on pre-2009 environmental investments must be made to determine the  
16 appropriate phase-in deferral balance, if any, that remains to be amortized  
17 through future rates and charges. There are also several outstanding issues  
18 before the Commission from the Companies' 2009 fuel adjustment clause  
19 ("FAC") audit and subsequent audits that will have a material impact on this  
20 remaining phase-in deferral balance.

21 Fourth, the PIRR recommended by the Stipulation calls for a carrying charge of  
22 5.34% to be collected on the unamortized phase-in deferral balance during the

1 amortization period. This 5.34% rate is unreasonable and excessive. Current,  
2 seven-year BBB rated, newly issued corporate bonds are presently being issued  
3 at an interest rate of about 3.75%, while the fixed interest rates on home  
4 mortgage rates currently are running in the range of 3 to 3.6% for 15-year loans.  
5 There is no good reason – based on currently prevailing interest rates – for the  
6 carrying charge to be based on an interest rate of 5.34%. Assuming a carrying  
7 charge rate of 3.75% was used during the amortization period and the tax benefit  
8 I described above is recognized, customers would see reduced cost on the order  
9 of \$75 million assuming that the phase-in deferral amount was ultimately set at  
10 \$624 million.

11 **Q18. Are there problems associated with the Stipulation's linkage between**  
12 **securitization and the PIRR??**

13 A18. Yes. Based on the advice of counsel, the Signatory Parties have failed to follow  
14 the Commission's rules dealing with securitization proposals, thereby violating  
15 regulatory principles and practices. Commission Rule 4901:1-35-03(C)(9)(e),  
16 Ohio Administrative Code ("O.A.C."), provides that a number of detailed  
17 requirements must be satisfied in conjunction with the securitization request.  
18 These requirements include a description of the securitization instrument and an  
19 accounting of that securitization, including the deferred cash flow due to the  
20 phase-in, carrying charges, and the incremental cost of the securitization. There  
21 must be a description of efforts to minimize the incremental cost of the  
22 securitization, and all documentation associated with the securitization including,  
23 but not limited to, a summary sheet of terms and conditions. The Commission's

1 rule also requires a comparison of costs associated with securitization with the  
2 costs associated with other forms of financing to demonstrate that securitization  
3 is the least cost strategy.

4 **Q19. Does the Stipulation or any of the Signatory Parties' testimony in support**  
5 **of the Stipulation provide the securitization details required by**  
6 **Commission Rule 4901:1-35-03(C)(9)(e), O.A.C., or any other details?**

7 A19. No. The only testimony offered in support of the Stipulation and addressing  
8 securitization is the testimony of witness William Allen. Included as Exhibit  
9 WAA-3 to witness Allen's testimony is a "Securitization Model" that provides  
10 assumptions for a hypothetical securitization. At the Technical Conference held  
11 at the Commission on September 14, 2011, Mr. Allen indicated that the  
12 Securitization Model on Exhibit WAA-3 is for illustrative purposes only. In  
13 response to IEU-Ohio Interrogatory 5-5, the Companies identified that the  
14 illustrative Securitization Model is based on a securitization undertaken by  
15 Entergy in Louisiana.

16 By failing to provide the information required by Commission Rule  
17 4901:1-35-03(C)(9)(e), O.A.C., the securitization proposed in the Stipulation fails  
18 the third prong of the three-prong test, by violating appropriate regulatory  
19 practice. In addition, as noted earlier, if the PIRR carrying charge is reduced to  
20 reflect a more contemporary (lower) interest rate and the appropriate  
21 adjustments are made to the phase-in deferral balance, any customer benefits



1 that could result from securitization would be diminished significantly, calling into  
2 question the need for any securitization.

3 **Q20. Are the Companies presently engaged in the use of securitization?**

4 A20. Yes and doing so without any additional legislation. As explained in the Form  
5 10-K filed with the Securities and Exchange Commission ("SEC") for 2010 and at  
6 pages 19 and 51-52 of the section containing the annual report for American  
7 Electric Power Company, Inc., securitization is used to factor receivables. A  
8 securitization agreement was renewed in 2010 and the use of securitization is  
9 expected to continue into the future through the renewal of the securitization  
10 agreement. At page 51-52, it states:

11 AEP Credit factors accounts receivable on a daily basis, excluding  
12 receivables from risk management activities, for CSPCo, I&M,  
13 KGPCo, KPCo, OPCo, PSO, SWEPCo and a portion of APCo. ...  
14 AEP Credit has a receivables securitization agreement with bank  
15 conduits. Under the securitization agreement, AEP Credit receives  
16 financing from the bank conduits for the interest in the billed and  
17 unbilled receivables AEP Credit acquires from affiliated utility  
18 subsidiaries.

19  
20 The weighted average interest rate on such securitization transactions identified  
21 in the Form 10-K for 2010 was 0.31%.

22 **Q21. In view of the Companies' current use of securitization, do you have an**  
23 **opinion as to why the use of securitization in the Stipulation is conditioned**  
24 **on new legislation?**

25 A21. Based on the Form 10-K described above and my experience, there is no reason  
26 why the use of securitization, in concept, needs to be tied to the enactment of  
27 new legislation. Had the information required by the Commission's rule on

1 securitization proposals been submitted, perhaps I would have an understanding  
2 of why the Signatory Parties believe that securitization legislation is needed to  
3 use a securitization tool along with the amount of any incremental benefit and  
4 cost that might be associated with whatever legislation the Signatory Parties may  
5 have had in their mind at the time they signed the Stipulation. The Stipulation  
6 sheds no light on this subject.

#### 7 **IV. IMPACTS OF REMAND PHASE OF THE CURRENT ESPs**

8 **Q22. Are there other aspects of the Stipulation that cause the Stipulation to not**  
9 **pass the three-prong test?**

10 **A22.** Yes and they are related to the implications from the remand phase of Case Nos.  
11 08-917-EL-SSO, *et al.* It is my opinion that these implications must be  
12 considered with respect to the Stipulation ESP. It is also my opinion that when  
13 such implications are considered, the Stipulation is contrary to the public interest  
14 and violates important regulatory principles.

15 In the ESPs of CSP and OPCo for the years 2009 through 2011 (Case Nos.  
16 08-917-EL-SSO, *et al.*) the Commission, in its Opinion and Order dated  
17 March 18, 2009, authorized CSP and OPCo to establish rates for the standard  
18 service offer ("SSO"). The revenue which the Commission authorized CSP and  
19 OPCo to collect through the ESP rates and charges included revenue  
20 components that were calculated to provide, among other things, a return on and  
21 of certain environmental capital expenditures that were alleged to be over and  
22 above that amount embedded in the Companies' legacy rates and charges. The

1 capital expenditures occurred between 2001 and 2008, and prior to January 1,  
2 2009. I shall refer to this revenue component as the "Pre-2009 Component."

3 In addition, the Commission authorized CSP and OPCo to establish a separate  
4 charge that produced incremental revenue for "carrying costs" on capital  
5 expenditures for environmental plant made on or after January 1, 2009 and  
6 during the ESP period. I shall refer to this revenue component as the "Post-2008  
7 Component." With regard to the Post-2008 Component, the Commission  
8 directed the Companies to propose, through an annual filing, a charge for such  
9 carrying costs "after the investments had been made." (Opinion and Order dated  
10 March 18, 2009 in Case Nos. 08-917-EL-SSO, *et al.* at page 30.)

11 After the Commission's decision in the Companies' current ESP cases was  
12 appealed to the Ohio Supreme Court ("Court"), on April 19, 2011, the Court held,  
13 among other things, that the Commission had erred in authorizing CSP and  
14 OPCo to collect revenue for items not specifically authorized by statute. The  
15 Court also stated that on remand the Commission may determine whether any of  
16 the listed categories of Section 4928.143(B)(2), Revised Code, authorizes  
17 recovery of environmental carrying charges.

18 In an Entry issued on May 25, 2011, regarding the remand phase referenced  
19 above, the Commission stated that the Companies and the intervenors should be  
20 afforded an opportunity to present testimony and to offer additional evidence in  
21 regard to the environmental carrying charges remanded to the Commission. The  
22 Commission also directed the Companies to file revised tariffs specifically stating

1 that the Pre-2009 Component charges and the POLR riders would be collected  
2 subject to refund, effective as of the first billing cycle of June 2011.

3 The Commission also established a procedural schedule to address the issues  
4 raised by the Court's decision. On June 6, 2011, the Companies filed the  
5 testimony of Mr. Philip Nelson in support of the continuation of the Pre-2009  
6 Component environmental charges in the remand phase of Case Nos.  
7 08-917-EL-SSO, *et al.*

8 **Q23. Has the Commission issued a decision addressing the contested issues in**  
9 **the remand phase of Case Nos. 08-917-EL-SSO, *et al.*?**

10 A23. No. At the time of my writing of this testimony, there had been no decision  
11 issued by the Commission in the remand phase of the Companies' current ESP  
12 cases.

13 **Q24. How do the unresolved issues in the remand phase of Case Nos.**  
14 **08-917-EL-SSO, *et al.*, relate to the ESP recommended in the Stipulation**  
15 **filed in these proceedings?**

16 A24. Since the resolution of the issues in the remand phase of Case Nos.  
17 08-917-EL-SSO, *et al.*, will determine the rates and charges that are properly  
18 includable in the current ESPs (2009-2011), and the Stipulation ESP in these  
19 proceedings builds on the current ESP's rates, charges and revenue, the  
20 resolution of the issues in the remand phase of Case Nos. 08-917-EL-SSO, *et al.*  
21 has a direct effect on the starting point for the Stipulation ESP. In addition, and  
22 as explained by Mr. Murray, the resolution of the issues in the remand phase of

1 the Companies' current ESP cases also affects the level of the rates in the  
2 market rate offer ("MRO") alternative that is used to test any proposed ESP  
3 considered in these proceedings (more specifically, the portion of the alternative  
4 MRO rate that is based on the EDU's most recent SSO).

5 **Q25. You indicated earlier that you submitted testimony in the remand phase of**  
6 **Case Nos. 08-917-EL-SSO, et al. What opinions and recommendations**  
7 **were in that testimony?**

8 A25. Based on my understanding of the April 19, 2011 decision of the Ohio Supreme  
9 Court and the specific categories in Section 4928.143(B)(2), Revised Code,  
10 through the advice of counsel and my understanding of the applicable accounting  
11 principles, I expressed the opinion (and hereby reaffirm that opinion) that the  
12 charges for the Pre-2009 Component are not includable in an ESP. Therefore, I  
13 recommended that CSP's and OPCo's ESP rates be adjusted downward to  
14 remove the Pre-2009 Component from the ESP rates and charges effective with  
15 the first billing cycle of June 2011. In addition, I recommended that the  
16 Commission require that CSP and OPCo return to customers (through a refund  
17 or bill credit) the amounts that have been collected subject to refund since the  
18 first billing cycle of June 2011, based on the Commission's May 25, 2011 Entry  
19 referenced above. I also observed that my recommended downward adjustment  
20 to rates was not sufficient to fully remove the Pre-2009 Component from CSP's  
21 and OPCo's future rates and charges because the Companies' first ESPs  
22 included a phase-in that was based on the revenue collection including the Pre-  
23 2009 Component. Therefore and to fully reflect the elimination of the Pre-2009

1 Component on all future rates and charges, I also recommended that the effect  
2 of the Pre-2009 Component on the amount eligible for future collection as a  
3 result of the phase-in deferral, delta revenue related to reasonable  
4 arrangements, and the Universal Service Fund ("USF") Rider also needed to be  
5 recognized.

6 Based on testimony filed by IEU-Ohio witness Murray in the remand phase of  
7 Case Nos. 08-917-EL-SSO, *et al.*, who concluded that the Companies' POLR  
8 should not be approved by the Commission, I also recommended that CSP's and  
9 OPCo's ESP rates be adjusted downward to remove the POLR Rider from the  
10 ESP rates and charges, effective with the first billing cycle of June 2011. In  
11 addition, I recommended that the Commission should require that CSP and  
12 OPCo return to customers (through a refund or a bill credit) the amounts that had  
13 been collected subject to refund through their POLR Riders since the first billing  
14 cycle of June 2011, per the Commission's May 25, 2011 Entry referenced above.

15 Because the Companies' ESPs included a phase-in that will be based on the  
16 revenue collection including the POLR revenues, I also recommended that the  
17 effect of the POLR revenues on the amount eligible for future collection as a  
18 result of the phase-in deferral, delta revenue related to reasonable  
19 arrangements, and the USF Rider must also be recognized.

20 **Q26. Can you elaborate on your recommendations in your testimony in the**  
21 **remand phase of the Companies' current ESP cases with respect to the**  
22 **significance of the phase-in deferral and also discuss why the**

1        **recommendations you made in the remand phase must be considered for**  
2        **purposes of evaluating the Stipulation ESP?**

3    A26. Yes. In the current ESPs, the Commission initially authorized the Companies to  
4        collect a pot of ESP dollars or a total authorized ESP revenue requirement. The  
5        Commission then limited the amount of the authorized revenue that the  
6        Companies could collect during the ESP period ending December 31, 2011 by  
7        establishing a separate phase-in for OPCo and CSP. The balance of the total  
8        authorized revenue that would have been collected during the ESP period, but  
9        for the Commission's phase-in, was deferred for future collection. The separate  
10       phase-in deferral amount for OPCo and CSP eligible for future collection is the  
11       phase-in portion of the total revenue individually authorized by the Commission  
12       for OPCo and CSP and the Commission stated that this amount would be  
13       determined as a function of other components of the ESP as they were affected  
14       by the total bill increase limits established by the Commission. To the extent the  
15       amount of revenue collected individually by the Companies during the ESP  
16       period was based on items that are not properly includable in an ESP, the  
17       amount of the phase-in deferral is excessive and unreasonable. The  
18       Commission's Opinion and Order issued on March 18, 2009, at page 22, in the  
19       Companies' current ESP cases limits recovery of the phase-in deferral to that  
20       which is determined to be "allowed" at the end of 2011. In my remand phase  
21       testimony, I explained that the Commission must reduce the total authorized  
22       revenue by the amounts not properly collectible as part of an ESP, and subtract  
23       the amount actually collected from the adjusted ESP total to determine how

1 much, if any, of the authorized revenue is eligible for future collection as a phase-  
2 in deferral after the end of the current ESPs. Otherwise, the improperly included  
3 ESP charges would be embedded in the revenue postponed for future collection.

4 **Q27. What specific adjustments did you recommend to phase-in deferral in the**  
5 **remand case?**

6 **A27.** I recommended that the amounts not properly collectible as part of an ESP from  
7 the beginning of the ESP through May 2011 for the Pre-2009 Component for  
8 environmental carrying charges (\$62.8 million for CSP and \$203 million for  
9 OPCo) be credited against the phase-in deferral. In addition, I recommended  
10 that the separate phase-in deferral amounts be reduced by \$235.3 million for  
11 CSP and \$132.4 million for OPCo for the POLR amounts that were improperly  
12 included in the Companies' current ESPs from the beginning of such ESPs  
13 through May 2011. The foregoing amounts do not include any recognition of  
14 interest that must also be added to these amounts for purposes of making the  
15 required reconciliation of the phase-in deferral.

16 I also explained in my remand testimony that practical reasons differentiated the  
17 results of my recommended downward adjustments to the phase-in deferrals of  
18 OPCo and CSP. Based on the differences between the two EDUs' ESPs, only  
19 OPCo was projected to have a positive phase-in deferral balance remaining at  
20 the end of 2011. Accordingly, the opportunity to reduce the going-forward effects  
21 of the inappropriate inclusion of the environmental charges and POLR revenues  
22 through an adjustment to the phase-in deferral balance is limited to OPCo. In



1 order to effectuate a remedy for the unlawful wealth transfer from consumers to  
2 CSP commencing January 1, 2009, however, I suggested that the Commission  
3 could consider reducing CSP's regulatory assets included in Account 182.3 –  
4 Other Regulatory Assets for items such as deferred line extension costs,  
5 deferred storm expenses, and deferred deregulation implementation costs.

6 I also explained that other ratemaking adjustments were necessary to reflect the  
7 going-forward effects of the elimination of environmental charges and POLR  
8 charges, in the computation of allowable revenue for "delta revenue" and the  
9 USF Rider.

10 **Q28. How do your recommendations from the remand phase of the Companies'**  
11 **current ESP cases apply to the Stipulation ESP?**

12 **A28.** Because the outcome of the remand case has not yet been determined, my  
13 recommendations from the remand case also apply to identify the current ESP  
14 starting point for purposes of evaluating the Stipulation ESP in these  
15 proceedings. The Stipulation ESP in this proceeding rests on a revenue  
16 foundation that includes the revenue from charges that the Ohio Supreme Court  
17 deemed were not properly authorized by the Commission. Accordingly, my  
18 recommendations in the remand phase of Case Nos. 08-917-EL-SSO, *et al.* must  
19 be picked up in these proceedings to ensure that the flow-through effects of the  
20 Ohio Supreme Court's remand order on the phase-in deferral and, in the case of  
21 CSP, regulatory assets, and other issues such as delta revenues, are picked up  
22 in the evaluation of the Stipulation ESP. As I explained earlier in my testimony,

1 the resolution of the issues in the remand phase of the Companies' current ESP  
2 cases will affect the phase-in deferral balance that is eligible for future recovery  
3 through the PIRR or any other amortization mechanism.

4 Further, because my recommendations in the remand phase included the  
5 recommendation that CSP's and OPCo's ESP rates be adjusted downward to  
6 remove the Pre-2009 Component from the ESP rates and charges [embedded in  
7 non- FAC generation rates] effective with the first billing cycle of June 2011, there  
8 is also an impact on the embedded non-FAC generation rates that the Stipulation  
9 ESP embeds in the Standard Offer Generation Service Rider ("Rider GSR")  
10 effective January 1, 2012.

11 Accordingly, it is my opinion that the issues in the remand phase of the  
12 Companies' current ESP cases must be resolved prior to any decision being  
13 issued on the Stipulation ESP in this proceeding. The adjustments I have  
14 recommended must also be recognized for purposes of computing the portion of  
15 the MRO that is based on each Company's most recent SSO. Adopting the  
16 Stipulation ESP without taking the steps I have recommended will embed  
17 unlawfully authorized revenue in the rates and charges resulting from the  
18 Stipulation ESP including, but not limited to, the PIRR.

19 **Q29. Has the Commission issued a decision addressing the contested issues in**  
20 **the remand phase of Case Nos. 08-917-EL-SSO, et al. since the time you**  
21 **filed your testimony in this case on September 27, 2011?**

1 A29. Yes. On October 3, 2011, the Commission issued its Order on Remand. The  
2 Commission's remand decision authorized the Companies to continue to collect  
3 2001-2008 environmental carrying costs but directed the Companies to remove  
4 POLR charges from their current rates. In addition, the Commission found that  
5 there should be no adjustment to the phase-in deferral balance associated with  
6 the phase-in to address, on a prospective basis, the unjustified POLR and  
7 environmental carrying charges collected from the beginning of the ESP term  
8 through the point at which the charges became subject to refund. The  
9 Commission also found that there are no other areas in which it should similarly  
10 address the flow-through effects of the Court's remand (e.g. USF and delta  
11 revenues).

12 **Q30. What are the impacts associated with the Remand Order's removal of**  
13 **POLR charges from current rates?**

14 A30. Amounts of POLR revenues collected since the first billing cycle of June 2011  
15 through the time that new tariffs take effect to remove the POLR charges from  
16 current rates, will first be credited against the phase-in deferrals of CSP and  
17 OPCo and then returned to customers by billing credits. In addition, new tariffs  
18 will be put in place to remove the POLR charges from current rates. The POLR  
19 revenue requirements originally authorized in the ESP case were \$97.4 million  
20 annually for CSP and \$54.8 million annually for OPCo. To illustrate, if new tariffs  
21 become effective on November 1, 2011 to remove the POLR charges from rates,  
22 then potential revenues for the last two months of 2011 would be reduced by  
23 approximately \$16.2 million for CSP and \$9.1 million for OPCo. In addition,

1 during the period that the POLR charges were being collected subject to refund,  
2 (the 5 months June 2011 through October 2011), the phase-in deferrals or  
3 customer bills would be reduced by approximately \$40.6 million for CSP and  
4 \$22.8 million for OPCo. Customer's net billing impacts however, may also be  
5 impacted by changes to the FAC rates that result from POLR revenues  
6 decreasing, under the operation of the annual billing caps. However, the  
7 foregoing discussion of the impacts of the Commission's Remand Order is  
8 merely illustrative of the effect of the remand order as things presently stand with  
9 the understanding that the results in the remand case may yet change as a result  
10 of the rehearing process or further determinations by the Ohio Supreme Court.

11 **Q31. Does this conclude your prepared direct testimony on the Stipulation ESP?**

12 A31. Yes. However, I reserve the right to update this testimony for responses to  
13 discovery that are presently outstanding.

## **CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing *Revised Direct Testimony of Joseph G. Bowser on Behalf of Industrial Energy Users-Ohio* was served upon the following parties of record this 13<sup>th</sup> day of October 2011, via electronic transmission, hand-delivery or first class mail, U.S. postage prepaid.

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