EXHIBIT NO. ______

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan.	))))))	Case 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

DIRECT TESTIMONY OF
ROBERT P. POWERS
IN SUPPORT OF AEP OHIO'S
MODIFIED ELECTRIC SECURITY PLAN

Filed: March 30, 2012

INDEX TO DIRECT TESTIMONY OF
ROBERT P. POWERS

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
ROBERT P. POWERS
ON BEHALF OF
OHIO POWER COMPANY

PERSONAL DATA

Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

A. My name is Robert P. Powers and my business address is 1 Riverside Plaza, Columbus, Ohio 43215.

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

A. I am employed by the American Electric Power Service Corporation (AEPSC), a unit of American Electric Power (AEP). My title is Executive Vice President and Chief Operating Officer of AEP which includes AEP Ohio, an operating unit of AEP. AEP Ohio was comprised of both Columbus Southern Power Company (CSP) and Ohio Power Company (OPCo) until December 30, 2011 at which time CSP was approved to merge into OPCo. Thus, the testimony hereby refers to OPCo as AEP Ohio or the Company.

Q. WHAT ARE YOUR RESPONSIBILITIES AS EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER OF AEP UTILITIES?

A. I am directly responsible for the overall operations of Commercial Operations, Customer and Distribution Services, Generation, Nuclear Generation, Fuel and Environmental Logistics, Regulatory Services, and AEP Utilities, which includes both West and East Utilities, including AEP Ohio. As a part of my responsibilities, I oversee and lead AEP in establishing goals that are designed to benefit customers and shareholders.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I earned a bachelor's degree in biology from Tufts University in Boston and a master's degree in radiological hygiene (health physics) from the University of North Carolina. I earned national certification by the American Board of Health Physics and earned my senior reactor operator certification in 1991. Additionally, I completed the executive management programs run by the University of California – Berkeley and Duke University.

I joined the utility industry in 1976 when I was hired by the Tennessee Valley Authority in the nuclear program, focusing on radiation measurement and environmental assessment of the utility's nuclear power plants and uranium mining properties. In 1982, I joined Pacific Gas & Electric Company's Diablo Canyon Nuclear Generating Station as a health physicist. I was employed by PG&E for 17 years and held various positions until becoming vice president. In 1998, I joined AEP as Senior Vice President-Nuclear Generation. I was then promoted to Executive Vice-President-Nuclear and Technical Services and subsequently Executive Vice President of Generation which expanded my responsibilities to include, not only nuclear operations, but fossil-fuels as well. In 2006, I assumed the position of Executive Vice-President of AEP East Utilities, responsible for AEP's utility operating units that serve approximately 3.2 million customers in the states of Indiana, Kentucky, Michigan, Ohio, Tennessee, Virginia and West Virginia. In 2010, I assumed the position of President of AEP Utilities which included responsibilities for all utility and regulatory assets of AEP operations. I have served in my current role as Executive Vice President and Chief Operating Officer of AEP since November 2011.

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

A. Yes. I have testified before the U.S. Nuclear Regulatory Commission in licensing hearings, and in proceedings conducted by the State of South Dakota on the environmental impact of utility operations.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present to the Public Utilities Commission of Ohio (Commission) AEP Ohio's Standard Service Offer (SSO) in the modified ESP cases currently pending which are Case No. 11-346-EL-SSO for CSP and Case No. 11-348-EL-SSO for OPCo (ESP II). Further, I will provide an overview of the Company's modified ESP II plan, in accordance with the Commission's order on February 23, 2012, which covers the period from June 1, 2012 through May 31, 2015. I will introduce the witnesses in the modified ESP II filing, AEP Ohio's commitment to a reasonable transition to a competitive market, the value that a competitive market involving a reasonable transition can provide to both our customers and investors, and the unique risks within the State of Ohio's electricity environment. While AEP Ohio is presenting a compromise solution in the modified ESP II that includes discounted capacity as well as a transition to market, AEP Ohio's litigation position in the capacity charge proceeding (Case No. 10-2929-EL-UNC) remains intact. In other words, the Company seeks a wholesale cost-based capacity rate and reserves the right to pursue any available legal remedies or avenues of relief before any administrative agency or federal or state court, unless the Commission issues final orders approving both the modified ESP II as presented and the corporate separation application as filed. Similarly, AEP Ohio would not be willing to provide discounted capacity and transition as quickly to market as proposed in the modified ESP if it does not receive all the benefits of the balanced package of terms in the proposed ESP, including a mechanism to help ensure AEP Ohio's financial stability during the transition.

Q. ARE YOU SPONSORING ANY EXHIBITS AS A PART OF YOUR TESTIMONY?

A. Yes, I am sponsoring Exhibit RPP-1.

<u>WITNESSES IN THE CASE AND SPONSORED TESTIMONY</u>

Q. HOW IS THE MODIFIED ESP II FILING ORGANIZED?

A. AEP Ohio has 12 witnesses supporting various key issues for the modified filing. The following table – Table 1: Witnesses in the Modified ESP II summarizes and serves to introduce the witnesses, the general ESP subject area they are sponsoring, and a brief description of their testimony.

Table 1: Witnesses in the Modified ESP II

Witness	General Subject Area	General Description of Testimony
Robert Powers	Overview of the ESP	• Overview of the modified ESP • Capacity price overview • Retail Stability Rider • Auction process overview • Corporate separation overview • Integrated package of terms and conditions
Selwyn Dias	General Policy Witness	• Advancement of state policies • Components of the modified ESP riders • Alternative Energy Standards Phase In Recovery Rider
Philip Nelson	Capacity Plan Corporate Separation Fuel Adjustment Clause (FAC) Generation resource rider (GRR) Alternative energy rider (AER) Pool termination & modification	• FRR/Capacity obligation • Transfer of AEP Ohio generation assets • Cost Recovery Mechanisms for fuel, renewable energy credits, new capacity, and pool termination

Witness	General Subject Area	General Description of Testimony
David Roush	Tariffs and Rate Design Customer Rate Impacts	• Modifications to the tariffs, terms and conditions of service • Design of the proposed rates and riders • Implementation and bill impacts
William Allen	Capacity Pricing Distribution Investment Rider (DIR) Retail Stability Rider (RSR) Detailed Implementation Plan (DIP)	• Two tiered capacity pricing • Description of how the DIR will function and the DIR revenue requirement • Need for and basis for the RSR • Customer switching levels
Laura Thomas	Aggregate Market Rate Offer (MRO) Test	• Aggregate MRO test • Competitive benchmark price development
Renee Hawkins	AEP Ohio's Capital Structure Securitization of Deferred Fuel Updated credit agency reports	• Capitalization, weighted average cost of capital (WACC), and carrying costs • Rationale and benefits of securitization of Deferred Fuel • Recent credit agency reports indicate the negative impact of the revoked ESP on the Company's credit
Oliver Sever	Pro-forma financial statements	• Forecast methodology • Forecast assumptions and results
Thomas Mitchell	Regulatory accounting	• Regulatory accounting details for proposed riders • Regulatory accounting for future recovery of deferrals
Thomas Kirkpatrick	Distribution Investment Rider (DIR) Enhanced Service Reliability Rider (ESRR) Storm Damage Recovery Mechanism gridSMART®	• Overview and description of the Distribution investment rider, which includes investment in Distribution programs • Vegetation program, gridSMART® program, and storm damage
Jay Godfrey	Request prudency for cost recovery of the Timber Road wind renewable energy power purchase agreement (REPA)	• Company's experience in renewable energy • Ohio renewable energy market • Timber Road wind REPA
Frank Graves	Capacity Markets and the Reliability Pricing Model	• Detailed discussion of PJM capacity market

The riders the witnesses are sponsoring in this case help ensure the SSO will provide rate certainty and stability as directed by the Commission in their February 23, 2012 order. The riders in the modified ESP II are consistent with other Ohio utility riders that are in existence. For example, in Case No. 10-388-EL-SSO, Opinion and Order (August 25, 2010), the Commission approved FirstEnergy's most recent ESP case and a proposed Distribution infrastructure rider, DCR, and a rider to recover the costs of FirstEnergy's smart grid plan. In Case No. 11-3549-EL-SSO, Opinion and Order (November 22, 2011), the Commission approved Duke Energy Ohio's ESP case which allowed for an Electric Services Stability Charge rider (which aligns to the AEP Ohio's Retail Stability Rider) and full corporate separation of Duke Energy Ohio's generation from their distribution & transmission assets. The modified ESP II plan properly balances the interests of the Competitive Retail Electric Service (CRES) providers, AEP Ohio, and the interests of its customers.

OHIO REGULATORY BACKGROUND

Q. CAN YOU SUMMARIZE AEP OHIO'S REGULATORY EXPERIENCE SINCE THE ADVENT OF ELECTRIC RESTRUCTURING IN OHIO?

A. Yes. After the passage of SB 3 in 1999, AEP Ohio did not seek recovery of stranded investment costs for its generation fleet. AEP Ohio has provided below market generation rates for the past decade, using its low cost generation assets. By contrast, other Ohio utilities such as the FirstEnergy operating companies recovered billions of dollars of stranded investment costs under SB 3, based on the book value of their generation fleet being much higher than projected market prices.

Following SB 3's market development period (MDP) when generation rates were supposed to be market-based, the Commission ordered EDUs to avoid market-based rates and provide rate stabilization plans (RSPs).[1] The RSPs were to promote rate certainty,

[1] In re DP&L, Case No. 02-2779-EL-ATA, Opinion and Order (September 2, 2003) at 29.

financial stability, and allow for competitive market development prior to charging customers market-based rates.[2] In AEP Ohio's RSP case, the Commission stated:

> At the outset, we will note that AEP proposed a rate stabilization plan because we requested it.[3]

The Commission found a competitive bidding process (CBP) would not be effective and that the Company's proposed rates were more favorable to customers than the market-based rates would be because competitive markets had not adequately developed.[4] That finding was based on the fact that market prices for generation were higher and more volatile than the stable, low prices that AEP Ohio was providing through its regulated generation rates.

Similarly, in 2005, the Commission ordered AEP Ohio to negotiate for the purchase of the Monongahela Power Company (Mon Power), in order to avoid rate shock for Mon Power customers going to market generation rates.[5] The Commission determined that Mon Power customers would be:

> …far better off under the rates established under the Companies' proposal than by being served at a CBP provided by Monongahela Power."[6]

Even after the passage of SB 221, the Commission adopted "exclusive supplier" provisions inserted into the Ormet and Eramet special contracts over AEP Ohio's objection, whereby Ormet and Eramet were not permitted to shop for ten years (even though AEP Ohio advocated that the customers should retain their ability to shop); the load associated with these contracts was equivalent to the load of more than 500,000

[2] In re Ohio Edison, Case No. 03-1461-EL-UNC, Entry (September 23, 2003) at 4-5.
[3] In re AEP Ohio, Case No. 04-169-EL-UNC, Opinion and Order (January 26, 2005) at 13.
[4] Id. At 14
[5] In re Monongahela Power, Case No. 05-765-EL-UNC, Entry (June 14, 2005)
[6] Opinion and Order (November 9, 2005) at 10.

residential homes.[7] Thus, AEP Ohio's experience during the SB 3 restructuring era was that the Commission would not move toward competition (in an apparent effort to protect customers from higher market-based rates) and acted to prevent utilities from collecting the higher market-based rates, instead pushing the utilities toward a regulated structure. Those same policy concerns led the Commission to conclude in AEP Ohio's first ESP case filed under S.B. 221 that, to take advantage of AEP Ohio's low-cost generation, "it is essential that the plan we approve be one that ... provides future revenue certainty for the Companies, and affords rate predictability for the customers." (*ESP I*, March 18, 2009 Opinion and Order at 72.)

In the same vein, based on its desire to maintain stable, low rates that AEP Ohio was providing and avoid being subject to the market, the Commission strongly encouraged AEP Ohio to operate under the Fixed Resource Requirements (FRR) option for serving AEP Ohio's SSO load as a member of PJM Interconnection LLC (PJM). In its public comments filed at FERC in advance of a FERC Staff Technical Conference on June 7, 2006, this Commission's Staff stated that it "would like to compliment the FERC for accepting the traditional resource requirement approach (the Fixed Resource Requirement option) as a legitimate alternative to RPM." As an FRR entity, AEP Ohio must self-supply its capacity to serve its load (rather than procuring it through the RPM market) and it has the option to establish cost-based charges for CRES providers using its capacity to serve retail customers. AEP Ohio's decision to pursue a cost-based capacity charge is under active consideration in the 10-2929 Commission case. In any case, as further discussed below, AEP Ohio is contractually committed to FRR capacity supply through May 31, 2015.

[7] Case No. 09-119-EL-UNC and 09-563-EL-UNC

Q. PLEASE SUMMARIZE AEP OHIO'S RECENT ESP PROCEEDINGS LEADING UP TO THE CURRENT FILING.

A. Over a year ago on January 27, 2011, AEP Ohio filed their ESP II plan in accordance with Senate Bill 221 (S.B. 221) requiring electric utilities to provide consumers with a SSO, consisting of either an ESP or a market rate offer (MRO). The law provides customers with the right to choose suppliers while the incumbent utility remains obligated as the provider of SSO service for all customers within its service territory regardless of each customer's current choice of supplier. A Stipulation was filed in September 2011 on the original ESP II plan and the Commission approved a modified Stipulation in December 2011. In January 2012, the Stipulation order was amended and then entirely revoked in February 2012 by the Commission. In March 2012, AEP Ohio was ordered by the Commission to provide for market-based pricing for SSO customers in a more expeditious manner than originally proposed in a modified ESP II plan.[8]

OVERVIEW OF THE MODIFIED ESP II

Q. PLEASE PROVIDE AN OVERVIEW OF THE MODIFIED ESP II PLAN.

A. While AEP Ohio understands the prospective alteration of past Ohio policy favoring a regulated structure and the Commission's direction to expedite market pricing, AEP Ohio also requires a reasonable transition plan to be approved by the Commission so as not to financially harm the Company and to fulfill its pre-existing contractual obligations as an FRR entity. Therefore, the Company asks in this modified ESP II filing for the Commission to approve a reasonable and steady path to a fully competitive business structure for AEP in Ohio. AEP Ohio's modified ESP II provides an expeditious path to a fully competitive market without causing serious financial harm to the Company and a

[8] In AEP Ohio Case 10-2376-EL-UNC, et.al, Entry (March 7, 2012) at 6

reasonable solution that aligns to the Company's contractual obligations. To evidence its commitment to adhere to Ohio's new policy directive, AEP Ohio did not pursue an FRR election for the 2015/2016 PJM planning year and, therefore, has submitted notice to PJM of its intent to participate in PJM's Reliability Pricing Model (RPM) for AEP Ohio's load.[9] During the modified ESP II transition plan timeframe, AEP Ohio proposes to corporately separate its generation and marketing functions from its distribution and transmission businesses, to eliminate the AEP Interconnection Agreement (Pool Agreement), to justify the pending cost-based capacity compensation case, and to provide increasing discounts of capacity prices to competitive suppliers for AEP Ohio's generation portfolio. The combination of these directives supports the growth of robust competitive supply options for customers of AEP Ohio and supports the Ohio directive for expedited market-based pricing. While the capacity charge question will be litigated in another case[10], and the new corporate separation application will be filed with the Commission shortly, those separate case outcomes are key factors underpinning AEP Ohio's modified ESP II proposal in this proceeding. Further, with the modified Distribution Investment Rider (DIR) mechanism, the Company will be able to sustain critical investments that benefit customers by maintaining and improving service reliability. Thus, the path will be cleared for competitive market-based auctions to serve AEP Ohio's full SSO energy load beginning January 2015 and its full SSO capacity and energy requirements beginning in June 2015; further, as discussed below, the Company is also proposing as part of the ESP package to conduct a smaller scale SSO energy auction for delivery starting six months after final orders approving the requests are issued in this

[9] Case 10-2929-EL-UNC, filed March 23, 2012
[10] Case No. 10-2929-EL-UNC

proceeding and the corporate separation docket. AEP Ohio's proposals to promote a fully competitive SSO will enhance competition considerably faster than is possible under a market rate option and are simply not possible outside the context of the modified ESP package with a reasonable transition proposed by the Company. This integrated plan represents a significant number of changes to the Company's operating business model, and provides for a balanced outcome for all stakeholders. The modified ESP II assures the availability of reliable supplies of power during the market transition period at reasonable and stable rates for the Companies' generation SSO customers, further enhances competitive opportunities for customers and suppliers, provides stable distribution rates for customers, and provides for enhanced service reliability. For a summary of the modified rate plan, please see Table 2 below:

TABLE 2: MODIFIED ESP II RATE PLAN

Columbus Southern Power Rate Zone

	Monthly Bills			
Household	**Current**	**Proposed**	**Change**	**Tariff**
1,000 kWh usage	$121	$128	6%	R-R Winter Bill
2,000 kWh usage	$189	$199	5%	R-R Winter Bill
Small Business				
1,000 kW demand and 100,000 kWh usage	$16,064	$16,354	2%	GS-2 Primary
1,000 kW demand and 300,000 kWh usage	$32,243	$33,187	3%	GS-3 Primary
Industrial Business				
20,000 kW demand and 6 million kWh usage	$436,143	$437,708	0%	GS-4
20,000 kW demand and 12 million kWh usage	$707,544	$716,633	1%	GS-4

Ohio Power Rate Zone

	Monthly Bills			
Household	**Current**	**Proposed**	**Change**	
1,000 kWh usage	$113	$120	6%	RS Bill
2,000 kWh usage	$212	$223	5%	RS Bill
Small Business				
1,000 kW demand and 100,000 kWh usage	$14,261	$14,999	5%	GS-2 Primary
1,000 kW demand and 300,000 kWh usage	$29,615	$30,857	4%	GS-2 Primary
Industrial Business				
20,000 kW demand and 6 million kWh usage	$478,609	$492,257	3%	GS-4 Transmission
20,000 kW demand and 12 million kWh usage	$712,971	$737,913	3%	GS-4 Transmission

The majority of the rate increases are distribution-related, but please see the testimony of Company witness Roush for the Table 2 details and specific customer impacts. The plan also continues AEP Ohio's existing support for a number of state policies as outlined by Company witness Dias. For an executive summary of the modified ESP II plan, please see Exhibit RPP-1 to my testimony.

CAPACITY PRICES

Q. WHAT ARE THE COMPONENTS OF THE WHOLESALE POWER MARKET?

A. Power markets are primarily comprised of capacity and energy, both of which are needed to provide generation service. Capacity can be described as the maximum physical plant output that a plant or a plant's unit can produce under certain conditions; in other words, it equates to having the generation infrastructure so that it may be available for use and primarily involves fixed costs based on long-term investments. Energy is the actual output that is produced by the plant or unit and primarily involves variable costs. Capacity, usually measured in megawatts (MW), is necessary to ensure that customers have enough energy when they are operating at their highest demand. The energy produced, usually measured in megawatt hours (MWh), is dependent upon the needs of customers across all hours.

In the PJM Reliability Pricing Model (RPM) market, load serving entities can self-supply generation resources (*i.e.*, elect to be an FRR entity) or procure needed capacity through the three-year forward PJM auction. Under the FRR approach, a load serving entity opts out of the RPM market and secures its own capacity to serve its load. Under FRR, CRES providers may supply their own capacity if they participate as an FRR entity and commit resources three years in advance; alternatively, CRES suppliers can avoid long term commitments and simply buy their needed capacity one day at a time from the FRR entity – AEP Ohio (like all of the CRES providers in Ohio have done to date). See the testimony of Company witness Graves for more detail on the PJM capacity market. With the modified ESP II, AEP Ohio has committed to adjust its business plan to a fully competitive energy and capacity market by June 1, 2015 (once its FRR contractual obligation ends) to comply with the Commission's policy directive,[11] though it is important to bear in mind that its willingness to do so is fully dependent upon the total package of inter-related terms and conditions of the proposed ESP. In any case, due to AEP Ohio's contractual obligations as an FRR entity through mid-2015 and AEP Ohio's reliance on prior Commission policy, a reasonable transition period or glide path is needed to wind down the FRR contractual commitment and terminate the Pool

[11] In AEP Ohio Case 10-2376-EL-UNC, Entry(March 7,2012) at 5-6

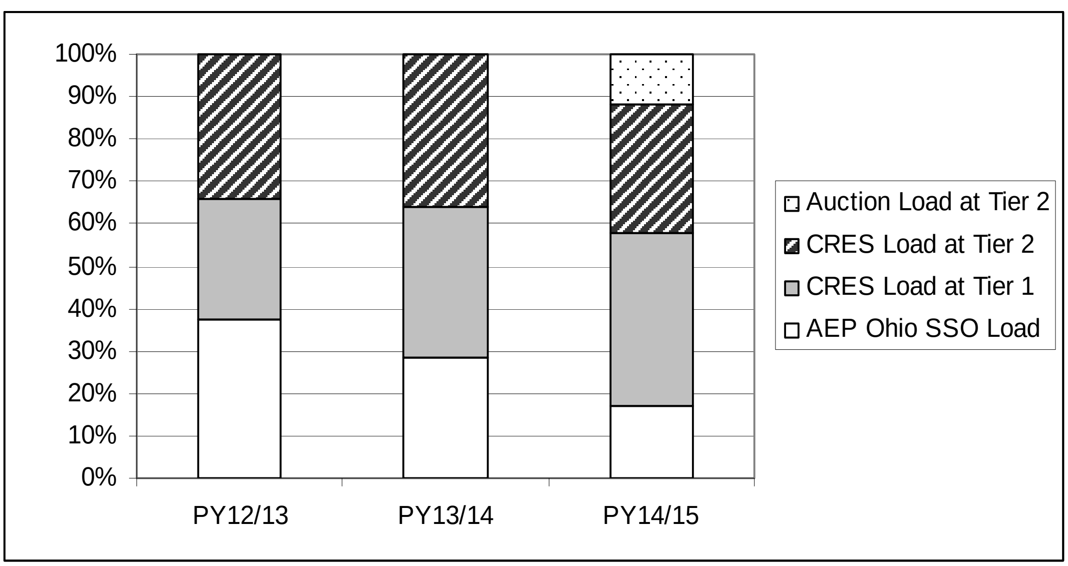
Agreement so the Company can get from "point A" to "point B." For additional detail on the three-year transition plan, see Company witness Nelson.

Q. PLEASE EXPLAIN THE MODIFIED ESP II PROPOSAL WHICH PROVIDES AN INTERIM CAPACITY RATE?

A. The AEP Ohio cost-based capacity charge, as presented in Case No. 10-2929-EL-UNC, is approximately $355/MW day. As part of the integrated package of terms proposed in the modified ESP that would avoid causing serious financial harm to AEP Ohio, the Company proposes to have a two-tiered capacity structure providing for RPM-priced capacity. The first tier is priced at current RPM rates of $146/MW-day to serve approximately 21% of each customer class through December 31, 2012, approximately 31% of each customer class during 2013, and approximately 41% of each class from January 1, 2014 through May 31, 2015. Additionally, for 2012, governmental aggregation initiatives approved in or before the November 2011 elections shall be awarded in 2012 as additional allotments of the $146/MW-day capacity price, while the additional aggregation load will be included within the 31% and 41% set-aside levels in 2013 and 2014, respectively. The remaining capacity prices would be offered at $255/MW-day, a substantial discount from the cost incurred by AEP Ohio to provide capacity. Both tiers of capacity pricing offered as part of the modified ESP II package are significantly below the cost-based rate supported by AEP Ohio in its 10-2929 filing of $355/MW day. Additional detail regarding the capacity pricing proposal is provided below or in the testimony of Company witness Allen.

Q. PLEASE EXPLAIN HOW THE MODIFIED ESP II PLAN AS A WHOLE PROMOTES COMPETITION?

A. As I mentioned above, the modified ESP II provides an accelerated path to fully competitive markets for supplying electricity to AEP Ohio's customers, while respecting AEP Ohio's financial condition and its FRR obligations through May of 2015. By the Commission adopting the modified ESP II plan and agreeing to corporate separation and Pool Agreement elimination, the path is being cleared for competitive auctions to serve AEP Ohio's SSO load. During the ESP II timeframe, AEP Ohio will provide discounted capacity to CRES providers in order to support expedited growth of robust competitive supply options for SSO customers. Further, the Company will delay the Phase-In Recovery Rider (PIRR) and unification of the Fuel Adjustment Clause (FAC) until 2013, as discussed by Company witness Dias. There will be no net changes to overall generation base prices for SSO customers during this transition. In addition, AEP Ohio has seen significant customer switching at the $255/MW-day second tier capacity price. In his testimony, Company witness Allen projects substantially increased shopping based on the second tier capacity pricing:



In short, the modified ESP II provides a rapid transition to complete corporate separation and elimination of the Pool Agreement, allowing for full market pricing in 2015 for competitive generation services, and provides for transparent and stable pricing during the transition period. As proposed, it provides benefits to both CRES providers and customers offering reasonable costs for supply, price stability and increased reliability.

Q. DOES THE MODIFIED ESP PROMOTE COMPETITION IN OTHER WAYS AND ALSO PROMOTE OTHER POLICY OBJECTIVES OF S.B. 221?

A. Yes. A reasonable transition to market for AEP Ohio is needed to truly promote fair competition and to avoid causing serious financial harm to AEP Ohio, which would leave AEP Ohio with no choice but to substantially curtail spending in Ohio and pursue its legal options. Through the proposed ESP, the Company is willing to stimulate shopping by providing discounted capacity and expedite the transition to competition faster than can be legally required, but only if the Commission approves the integrated package of terms proposed in the ESP that will maintain AEP Ohio's financial health. In the guise of advancing competition, some parties will no doubt advocate that AEP Ohio provide additional discounts of its capacity or seek other subsidies, but requiring AEP Ohio to further subsidize CRES providers would represent unfair competition and would harm AEP and its investors. To foster robust and fair competition that will produce low rates for all Ohioans, the Commission should approve the modified ESP, which ensures a reasonable transition to market and fair compensation for AEP Ohio's generation resources that have been contractually dedicated to serving its Ohio customers. This Commission should not consider altering AEP Ohio's proposed ESP in a manner that will cause financial harm to the Company. Doing so would force AEP Ohio to significantly reduce its spend in Ohio and inevitably lead to significant job reductions in Ohio (where thousands of AEP employees and contractors work and pay taxes). Such a result would run directly counter to the State policy (in Section 4928.02(N), Ohio Revised Code) to facilitate Ohio's effectiveness in the global economy. By contrast, the proposed modified ESP promotes many policy objectives of SB 221, as is discussed in detail in the testimony of Company witness Dias.

RETAIL STABILITY RIDER (RSR)

Q. WHY IS THE RSR NECESSARY?

A. From the Company's perspective, the need for a RSR charge stems largely from the financial harm to AEP Ohio that would otherwise result from the modified ESP package as a whole. For example, the three-year FRR commitment the Company has with PJM to supply capacity for AEP Ohio load, as well as the obligations that AEP Ohio has under the existing system Pool Agreement, must be considered as AEP Ohio transitions to market. Although the modified ESP II plan commits the company to a full competitive auction bid process for AEP Ohio's SSO by June 1, 2015, the Company must continue to meet its PJM capacity obligations during the interim. The need for a reasonable transition stems from AEP Ohio's contractual FRR and Pool Agreement obligations as well as its reliance on more than a decade of direction from the Commission to avoid subjecting customers to market-based generation rates. Despite its legal commitments, the Company is offering to discount its capacity and will also continue to offer base generation rates at existing levels and bear the going-forward risk of environmental compliance. In exchange for offering these and other benefits of the proposed ESP package, the Company proposes a RSR to decouple generation revenues over the ESP II term ending May 31, 2015. The RSR will provide economic stability and certainty for AEP Ohio, our customers and other stakeholders during the market transition term of the modified ESP II and until corporate separation and the Pool Agreement elimination is complete. Please see the testimony of Company witness Allen for additional details on the RSR.

COMPETITIVE AUCTION BID PROCESS

Q. RECOGNIZING THE COMMISSION'S PRESENT DESIRE TO PROVIDE MARKET-BASED SSO PRICING IN AN EXPEDITIOUS MANNER, WOULD AEP OHIO HAVE CONCERNS ABOUT PROCEEDING IMMEDIATELY TO AN AUCTION-BASED SSO?

A. Yes. As explained by Company witness Nelson in his testimony, AEP Ohio would experience adverse financial risks and impacts that are not acceptable – particularly during the period prior to corporate separation and the AEP Pool being terminated.

Q. WHEN IS AEP OHIO PROPOSING TO IMPLEMENT AN AUCTION-BASED SSO UNDER THE MODIFIED ESP?

A. AEP Ohio must have received final orders providing for the elimination of the Pool Agreement and for full corporate separation in order to implement its proposal to conduct energy auctions for 100% of the SSO load, with delivery beginning January 2015. AEP Ohio would provide capacity support for the auctioned load at $255/MW-day. Within 90 days of receipt of both final orders, AEP Ohio commits to filing a competitive bid auction process (CBP) case for its SSO load. While the details of AEP Ohio's CBP will be forthcoming in another filing, AEP Ohio anticipates that the process will be much the same as other Ohio utility CBP filings approved by the Commission with the benefit of any guidance from the order in these proceedings or developments at the time.

Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPETITIVE BIDDING PROCESS THAT AEP OHIO WILL BE CONDUCTING FOR THE DELIVERY OF SSO SERVICE IN JANUARY 2015?

A. It is expected that from January 1, 2015-May 31, 2015, a CBP will determine the price of energy for AEP Ohio. Beginning June 1, 2015, a CBP will determine 100% of the SSO energy and capacity prices for AEP Ohio's SSO load. At this time, since AEP Ohio's FRR obligation will be terminated, winning auction suppliers would procure capacity supporting their load from the RPM market. The auction-based process will provide an opportunity for competitive suppliers and marketers to bid for AEP Ohio's SSO load. Customers will continue to have the ability to switch to CRES providers in Ohio, should they desire to do so.

Q. IS AEP OHIO WILLING TO CONDUCT A PARTIAL SSO AUCTION PRIOR TO 2015?

A. For the purpose of facilitating a smooth transition to the full SSO energy auction in January 2015, AEP Ohio is willing to engage in a limited SSO auction as part of the ESP package, as follows. The terms and conditions of such an auction need to be clearly circumscribed up front and AEP Ohio must be made whole to avoid the financial exposure it would otherwise face, including financial impacts of the early auction under the AEP Pool Agreement. Specifically, based on the express condition of financially being made whole, AEP Ohio is willing to conduct an energy-only, slice-of-system auction for 5% of the SSO load, with delivery beginning six months after final orders are both issued adopting the ESP as proposed and the corporate separation plan as filed. The delivery period would extend through December 31, 2014. Details concerning the auction will be addressed immediately following the issuance of final orders.

CORPORATE SEPARATION OVERVIEW

Q. PLEASE EXPLAIN AEP OHIO'S PLAN TO DIVEST ITS GENERATION ASSETS.

A. In conjunction with the requirements of a fully competitive market, AEP Ohio will file with the FERC separate filings to fully separate the AEP Ohio generation and marketing businesses from its transmission and distribution businesses. In one FERC filing, AEP Ohio will ask for the transfer its generation assets at net book value (NBV) to AEP Generation Resources (Genco) by January 1, 2014. This filing will involve the full net book value transfer of all of AEP Ohio's current generation assets to the Genco, a provision that was highlighted by the Commission in their February 23, 2012 Order. Another FERC filing will propose termination and replacement of the Pool Agreement, for which the member companies, including AEP Ohio, provided notice of termination on December 17, 2010 which established a three year termination commitment by January 1, 2014. In another separate application with the FERC, certain generating assets, the Mitchell generating plant and Ohio Power Company's share of Unit No. 3 of the Amos generating plant, will be transferred at net book value from the Genco to Appalachian Power Company (APCo) and Kentucky Power Company (KPCo). Finally, from January

1, 2014-May 31, 2015, the Genco will have an interim power sales agreement (SSO Contract) with AEP Ohio to allow AEP Ohio to meet its FRR capacity requirements and serve its non-shopping retail energy requirements until January 1, 2015. This agreement will require a separate application at the FERC as well. Please see Company witness Nelson for further detail on these FERC filing matters.

Q. PLEASE ADDRESS WHY CERTAIN AEP OHIO GENERATION ASSETS ULTIMATELY WILL BE TRANSFERRED TO APCO/KPCO?

A. For the past 60 years, AEP Ohio and the other generation owning AEP companies in the PJM footprint have participated under the current Pool Agreement. The Pool Agreement allowed for these entities to engage in integrated planning and operation of their power supply facilities and allocate among themselves the generation related costs and benefits. Excluding AEP Ohio, the other AEP-East operating companies are still operating under traditional regulation and utilizing the FRR option. The Pool Agreement is scheduled for termination January 1, 2014. APCo and KPCo have long relied on AEP Ohio generating assets through the Pool Agreement to supply part of the capacity and energy needed to meet their respective state customer load requirements (and APCo and KPCo have long paid for using those assets through capacity equalization charges). The applicable Amos and Mitchell units are physically located in the state of WV, and are of sufficient capacity to cover the expected shortfall (including the required reserve margin) for those FRR companies after the existing pool agreement is terminated. Please see the testimony of Company witness Nelson for further details on these matters.

Q. HOW WILL THE PLANNED RETIREMENTS OF AEP OHIO GENERATION ASSETS IMPACT THE AVAILABILITY OF ADEQUATE CAPACITY FOR OHIO CUSTOMERS?

A. The current AEP Ohio generation asset portfolio will have no direct relationship to the AEP Ohio load, once the transition to corporate separation, Pool Agreement elimination, and market-based capacity/energy procurement is complete. Therefore, any retirements would ultimately be offset by existing capacity or new capacity additions in PJM that could be built by other market participants.

Q. PLEASE EXPLAIN HOW AEP OHIO INTENDS TO ENSURE ADEQUATE CAPACITY ON AN ONGOING BASIS.

A. As outlined above, once the Pool Agreement is eliminated and corporate separation is complete, there will be a SSO Contract between the Genco and AEP Ohio over the ESP II term. To further support the Commission's intent to encourage competition in an expedited manner, from January 1, 2015-May 31, 2015, AEP Ohio will auction the energy component of SSO load. Effective June 1, 2015, AEP Ohio will use a CBP for supply of capacity and energy supporting SSO load in the same manner as other Ohio electric utilities do today. The assurance of adequate capacity will become a function and obligation of PJM. Please see the testimony of Company witness Graves who details PJM's RPM process.

OTHER OPTIONS

Q. HAS AEP OHIO REVIEWED OTHER OPTIONS FOR AN ESP II PLAN?

A. Yes. AEP Ohio looked at an alternative option to provide the economic benefits of shopping directly to the customers as a shopping credit over the modified ESP II term ending May 31, 2015. At a single cost-based price for capacity charged to CRES providers over the ESP II term, AEP Ohio would implement no base generation increase, no RSR, and would provide a meaningful shopping credit to customers to switch their generation service. This option would allow for Ohio customers to experience the true benefits of shopping and the market, but will directly limit the margins of the CRES providers and of AEP Ohio. Please see the the testimony of Company witness Allen for details on this option.

AGGREGATE MARKET RATE OFFER (MRO) TEST

Q. DOES THE ESP II PASS THE MRO TEST IN THE AGGREGATE?

A. Yes. I have been advised by counsel that an application for an ESP should be approved if the Commission finds that the ESP II, including its pricing and all other terms and conditions, is more favorable in the aggregate as compared to the expected results that a market rate offer would provide. As the Commission has done in other ESP cases (including the recent FirstEnergy and Duke Energy Ohio cases, as well as AEP Ohio's ESP I proceeding), it should not rely solely on the price test analysis of the aggregate MRO test in reviewing the modified ESP II proposal but should also give serious consideration to qualitative benefits of the proposed ESP. Company witness Thomas shows how the elements of the modified ESP II support favorable aggregate MRO test results.

CONCLUSION

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

EXECUTIVE SUMMARY OF THE MODIFIED ESP II FILING

- June 1, 2012 – May 31, 2015 is the ESP term
- January 1, 2015 – May 31, 2015 begins energy auction for 100% of SSO load
- June 1, 2015 begins full delivery and pricing of AEP Ohio SSO service through competitive auction bid process (CBP)
- Energy auction for 5% of SSO load with delivery starting six months after final orders in ESP and corporate separation cases.
- Discounted capacity prices for CRES providers over the ESP term
- The overall request in this ESP has minimal impact on customers' rates
    - On average over the three-year period, an AEP Ohio retail and commercial customer will see an annual increase to the bill of approximately 3%
    - The change in rates includes no base generation increase but allows for collection of costs that AEP Ohio incurred but was unable to collect for a number of years

AEP OHIO MODIFIED ESP II RATES (cents/kWh)

	Current Rates 2012	June 2012 - May 2013		June 2013 - May 2014		June 2014 - December 2014	
	cents/kWh	cents/kWh	%	cents/kWh	%	cents/kWh	%
Base Generation	2.10	2.25	7%	2.25	0%	2.25	0%
Fuel Adjustment Clause	3.61	3.61	0%	3.60	0%	3.60	0%
Environmental	0.16	-	na	-	0%	-	0%
Total Generation	**5.86**	**5.86**	0%	**5.85**	0%	**5.85**	0%
Transmission	0.80	0.80	0%	0.80	0%	0.80	0%
Distribution**	2.13	2.32	9%	2.36	2%	2.39	1%
Phase-In Rider	-	-	0%	0.31	na	0.31	0%
Retail Stability Rider	-	0.20	na	0.20	0%	0.20	0%
Total	**8.79**	**9.19**	**5%**	**9.54**	**4%**	**9.56**	**0%**

** AEP Ohio summary from Exhibit DMR-1. Includes rate mechanisms as outlined in Exhibit DMR-4

EXECUTIVE SUMMARY OF THE MODIFIED ESP II FILING

- The overall request complies with order for expeditious transition to market-based generation rates in Ohio
    - Elimination of Interconnection Pool Agreement (Pool Agreement)
    - Corporate separation of AEP Ohio's generation and marketing assets from its distribution and transmission assets
    - Offers AEP Ohio capacity at a price that is currently below $/MW-day cost to AEP
- Proposed rate plan offers price certainty to AEP Ohio customers and to CRES providers
- Proposed riders in ESP II (See Exhibit DMR-4):
    - RSR: mitigates financial harm to the Company of offering integrated ESP package of terms and conditions, including capacity discount pricing
    - DIR: allows for continuation of distribution investment measures to support reliability improvements
    - AER: recovery mechanism to support Commission staff request for Alternative Renewable Energy Credit tracking mechanism
    - GRR: placeholder mechanism for Turning Point project
- Continue current riders through ESP II term June 1, 2015 (See Exhibit DMR-4):
    - Universal Service Fund Rider, Deferred Asset Recovery Rider, kWh Tax Rider, Residential Distribution Credit Rider, Pilot Throughput Balancing Adjustment Rider, Transmission Cost Recovery Rider, EE/PDR, Economic

EXECUTIVE SUMMARY OF THE MODIFIED ESP II FILING

Development Rider, ESRR, gridSMART, Electronic Transfer Rider, Renewable Energy Credit Purchase Offer Rider, Renewable Energy Technology Program Rider, Fuel Adjustment Clause (unified FAC begins 2013)

- Miscellaneous riders & provisions (See Exhibit DMR-4):
    - Phase In Recovery Rider (begins 2013 with unified FAC)
    - Storm Damage Recovery Mechanism
    - Pool Termination Provision – if necessary
- Eliminated riders (See Exhibit DMR-4):
    - Emergency Curtailable Service Rider, Energy Price Curtailable Service Rider, Environmental Investment Carrying Cost Rider (combined with base rates)

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Ohio Power Company's Direct Testimony of Robert P. Powers has been served upon the below-named counsel and Attorney Examiners by electronic mail to all Parties this 30th day of March, 2012.

/s/ Steven T. Nourse

greta.see@puc.state.oh.us,
jeff.jones@puc.state.oh.us,
Daniel.Shields@puc.state.oh.us,
Tammy.Turkenton@puc.state.oh.us,
Jonathan.Tauber@puc.state.oh.us,
Jodi.Bair@puc.state.oh.us,
Bob.Fortney@puc.state.oh.us,
Doris.McCarter@puc.state.oh.us,
Greg.Price@puc.state.oh.us,
Stephen.Reilly@puc.state.oh.us,
Werner.Margard@puc.state.oh.us,
William.Wright@puc.state.oh.us,
Thomas.Lindgren@puc.state.oh.us,
john.jones@puc.state.oh.us,
dclark1@aep.com,
grady@occ.state.oh.us,
keith.nusbaum@snrdenton.com,
kpkreider@kmklaw.com,
mjsatterwhite@aep.com,
ned.ford@fuse.net,
pfox@hilliardohio.gov,
ricks@ohanet.org,
stnourse@aep.com,
cathy@theoec.org,
dsullivan@nrdc.org,
aehaedt@jonesday.com,
dakutik@jonesday.com,
haydenm@firstenergycorp.com,
dconway@porterwright.com,
jlang@calfee.com,
lmcbride@calfee.com,
talexander@calfee.com,
etter@occ.state.oh.us,
grady@occ.state.oh.us,
small@occ.state.oh.us,
cynthia.a.fonner@constellation.com,
David.fein@constellation.com,
Dorothy.corbett@duke-energy.com,
Amy.spiller@duke-energy.com,
dboehm@bkllawfirm.com,
mkurtz@bkllawfirm.com,
ricks@ohanet.org,
tobrien@bricker.com,
jbentine@cwslaw.com,
myurick@cwslaw.com,
zkravitz@cwslaw.com,
jejadwin@aep.com,
msmalz@ohiopovertylaw.org,
jmaskovyak@ohiopovertylaw.org,
todonnell@bricker.com,
cmontgomery@bricker.com,
lmcalister@bricker.com,
mwarnock@bricker.com,
gthomas@gtpowergroup.com,
wmassey@cov.com,
henryeckhart@aol.com,
laurac@chappelleconsulting.net,
whitt@whitt-sturtevant.com,
thompson@whitt-sturtevant.com,
sandy.grace@exeloncorp.com,
cmiller@szd.com,
ahaque@szd.com,
gdunn@szd.com,
mhpetricoff@vorys.com,
smhoward@vorys.com,
mjsettineri@vorys.com,
lkalepsclark@vorys.com,
bakahn@vorys.com,
Gary.A.Jeffries@dom.com,

Stephen.chriss@wal-mart.com,
dmeyer@kmklaw.com,
holly@raysmithlaw.com,
barthroyer@aol.com,
philip.sineneng@thompsonhine.com,
carolyn.flahive@thompsonhine.com,
terrance.mebane@thompsonhine.com,
cmooney2 @columbus.rr.com,
drinebolt@ohiopartners.org,
trent@theoeg.com,
nolan@theoec.org,
gpoulos@enernoc.com,
emma.hand@snrdenton.com,
doug.bonner@snrdenton.com,
clinton.vince@snrdenton.com,
sam@mwncmh.com,
joliker@mwncmh.com,
fdarr@mwncmh.com,
jestes@skadden.com,
paul.wight@skadden.com,
dstahl@eimerstahl.com,
aaragona@eimerstahl.com,
ssolberg@eimerstahl.com,
tsantarelli@elpc.org,
callwein@wamenergylaw.com,
malina@wexlerwalker.com,
jkooper@hess.com,
kguerry@hess.com,
afreifeld@viridityenergy.com,
swolfe@viridityenergy.com,
korenergy@insight.rr.com,
sasloan@aep.com,
Dane.Stinson@baileycavalieri.com,
cendsley@ofbf.org

AEP Ohio Exhibit No. ___

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan.	))))))	Case 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

**DIRECT
TESTIMONY OF
SELWYN J. DIAS
IN SUPPORT OF AEP OHIO'S
MODIFIED ELECTRIC SECURITY PLAN**

Filed: March 30, 2012

INDEX TO DIRECT TESTIMONY OF
SELWYN J. DIAS

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
ROBERT P. POWERS
ON BEHALF OF
OHIO POWER COMPANY

PERSONAL DATA

Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

A. My name is Selwyn J. Dias and my business address is 850 Tech Center Drive, Gahanna, Ohio 43230.

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

A. I am employed by Ohio Power Company, dba AEP Ohio, a unit of American Electric Power (AEP). My position title is Vice President, Regulatory and Finance. AEP Ohio was comprised of both Columbus Southern Power Company (CSP) and Ohio Power Company (OPCo) until December 30, 2011 at which time CSP was approved to merge into OPCo. Thus, the testimony hereby refers to OPCo as AEP Ohio or the Company. I am responsible for regulatory operations, regulated electric pricing, and financial performance related to AEP Ohio. I report directly to AEP Ohio's President and Chief Operating Officer.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I graduated from the University of Central Oklahoma with a bachelor's degree in Business Administration (Accounting Major) in 1981. I have also completed the Executive Management Program at the University of Virginia Darden School of Business. I hold the professional designations of certified internal auditor and certified fraud examiner administered by the Institute of Internal Auditors and the National Association of Certified Fraud Examiners.

I began my career in 1981 as an international internal auditor with Kerr-McGee Corporation, an oil & gas drilling and exploration conglomerate. In 1985, I joined Central and South West Corporation (CSW) as an internal auditor and progressed to a management level position within the internal auditing organization. During my tenure with CSW I held several other leadership positions within the company including manager of corporate services, director of pricing development and director of regulatory administration.

After the merger of CSW and AEP in 2000, I continued as director of regulatory administration with responsibilities expanded to include the remainder of AEP's regulated jurisdictions. In June 2003 I was appointed director, regulatory affairs and in September 2008 I was promoted to my current position vice president, regulatory and finance. In this capacity I am responsible for providing organizational leadership on AEP Ohio's regulatory and financial strategic plans, including financial investments. I provide technical direction on regulatory policy, state filing requirements, retail electric tariffs and represent AEP Ohio on all matters before the Public Utilities Commission of Ohio (PUCO or Commission).

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

A. Yes. I have presented testimony or testified on behalf of AEP Ohio before the Commission in the following cases:

- Transfer of Monongahela Power Company's Certified Territory in Ohio to CSP in Case No. 05-765-EL-UNC;
- Complaint of OPCo versus Consolidated Electric Cooperative relative to violations of the Certified Territory Act in Case No. 06-890-EL-CSS;

- Additional Generation Service Rate Increases Pursuant to AEP Ohio's Post-Market Development Period Rate Stabilization Plans in Case No. 07-63-EL-UNC;
- Complaint of City of Reynoldsburg, Ohio versus CSP in Case No. 08-846-EL-UNC; and
- AEP Ohio Base Distribution Case and Tariffs Approvals in Case No. 11-353-EL-ATA, et al.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide detail on how the modified ESP II plan advances state policies, summarize significant benefits of the Company's proposed plan, including a) additional customer benefits in this proposal compared to the stipulated agreement filed September 7, 2011; b) major differences between the original ESP II (filed January 2011); and c) address certain riders for AEP Ohio and their associated customer benefits.

Also, I discuss how the Company plans to meet the alternative energy requirements, throughout the ESP II term.

MODIFIED ESP II PROMOTES STATE POLICIES

Q. DOES THE ESP II PROMOTE STATE POLICIES?

A. Yes. The modified ESP II promotes state policies in 4928.02 Ohio Rev. Code and is a reasonable rate plan for AEP Ohio to provide customers and stakeholders, in the aggregate.

Q. PLEASE DESCRIBE HOW THIS ESP II ADVANCES STATE OF OHIO POLICIES IN 4928.02 O.R.C.

A. Many aspects of the AEP Ohio's proposed ESP II touch on the enumerated policy considerations detailed in §4928.02 O.R.C. As a whole the proposed ESP II enhances the states effectiveness in the global economy, in accordance with R.C. 4928.02(F), by providing the stability needed for businesses and residential customers to plan, research facilities to focus, entities outside of the state to rely on the security of the regulatory structure in AEP Ohio territory and Ohio as a whole. Many of the individual parts of the proposed ESP II support state policies including but not limited to[1]:

- Fixed non-fuel generation pricing for SSO customers ensures the availability of adequate, reliable, safe, efficient, nondiscriminatory and reasonably priced electricity;
  - *§4928.02(A) Ensure the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service;*
- Deeply discounted pricing off AEP Ohio's generation capacity cost to CRES providers and a transition plan to an energy auction-based SSO within two and a half years, followed by a full auction-based SSO in June 2015 are examples of ensuring diversity of electricity supplies and suppliers, providing consumers choices over the selection of those supplies and suppliers, and ensuring effective competition of electricity pricing in an effort to seek reasonable priced electric service;
  - §4928.02*(C) Ensure diversity of electricity supplies and suppliers, by giving consumers effective choices over the selection of those supplies and suppliers and by encouraging the development of distributed and small generation facilities;*
  - *§4928.02(A) Ensure the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service;*

[1] I have added some of the §4928.01sections that illustrate the policy support I provide as examples. The statutory text was provided to me by counsel.

- Structural corporate separation of AEP Ohio's generation and marketing businesses from its transmission and distribution businesses will continue the emergence of competitive electricity markets which can also lead to a diversity of suppliers;
    - §4928.02*(G) Recognize the continuing emergence of competitive electricity markets through the development and implementation of flexible regulatory treatment;*
    - §4928.02*(C) Ensure diversity of electricity supplies and suppliers, by giving consumers effective choices over the selection of those supplies and suppliers and by encouraging the development of distributed and small generation facilities;*
- Transparency and certainty in AEP Ohio's SSO pricing gives consumers comparable price to compare information in determining whether to select an alternative supplier. Customer knowledge and education of charges for services allows customers to make informed decisions when dealing with sales practices and interacting in the market, receive reasonably priced service, and provides clarity on any relationship between affiliated entities;
    - §4928.02*(I) Ensure retail electric service consumers protection against unreasonable sales practices, market deficiencies, and market power;*
    - §4928.02*(A) Ensure the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service;*
    - §4928.02*(B) Ensure the availability of unbundled and comparable retail electric service that provides consumers with the supplier, price, terms, conditions, and quality options they elect to meet their respective needs;*
    - §4928.02*(H) Ensure effective competition in the provision of retail electric service by avoiding anticompetitive subsidies flowing from a noncompetitive retail electric service to a competitive retail electric service or to a product or service other than retail electric service, and vice versa, including by prohibiting the recovery of any generation-related costs through distribution or transmission rates;*

- AEP Ohio's modification and proposal to enhance customers' interruptible and peak demand reduction attributes, to contribute in meeting the Company's peak demand reduction mandates under SB221, encourages energy efficiency, development of distributed and small generation facilities, and promotes economic development;

    - §4928.02*(D) Encourage innovation and market access for cost-effective supply- and demand-side retail electric service including, but not limited to, demand-side management, time-differentiated pricing, and implementation of advanced metering infrastructure;*

    - §4928.02*(N) Facilitate the state's effectiveness in the global economy. In carrying out this policy, the commission shall consider rules as they apply to the costs of electric distribution infrastructure, including, but not limited to, line extensions, for the purpose of development in this state.*

- Distribution investment opportunities through the proposed DIR can provide for deployment of emerging distribution system technologies where they can cost-effectively improve the efficiency and reliability of the distribution system, develop performance standards and targets for service quality for all consumers, and encourage the use of energy efficiency programs and alternative energy resources;

    - §4928.02*(E) Encourage cost-effective and efficient access to information regarding the operation of the transmission and distribution systems of electric utilities in order to promote both effective customer choice of retail electric service and the development of performance standards and targets for service quality for all consumers, including annual achievement reports written in plain language;*

    - *§4928.02(M) Encourage the education of small business owners in this state regarding the use of, and encourage the use of, energy efficiency programs and alternative energy resources in their businesses;*

- Continuation of the Enhanced Service Reliability Rider (ESRR) enhances electric distribution service consistent with the value customers place on service reliability and targets for service quality;

- *§4928.02(A) Ensure the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service;*

- *§4928.02(E) Encourage cost-effective and efficient access to information regarding the operation of the transmission and distribution systems of electric utilities in order to promote both effective customer choice of retail electric service and the development of performance standards and targets for service quality for all consumers, including annual achievement reports written in plain language;*

- Modest overall rate increases, along with rate design considerations, protect at-risk populations, small businesses and industrial/manufacturing customers;
  - *§4928.02(A) Ensure the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service;*
  - *§4928.02(B) Ensure the availability of unbundled and comparable retail electric service that provides consumers with the supplier, price, terms, conditions, and quality options they elect to meet their respective needs;*
  - *§4928.02(C) Ensure diversity of electricity supplies and suppliers, by giving consumers effective choices over the selection of those supplies and suppliers and by encouraging the development of distributed and small generation facilities;*
  - *§4928.02(M) Encourage the education of small business owners in this state regarding the use of, and encourage the use of, energy efficiency programs and alternative energy resources in their businesses;*

and

- Continuation of the Economic Development Cost Recovery Rider (EDR) provision related to reasonable arrangements with mercantile customers, approved by the Commission, facilitates the state's effectiveness in a global economy;
  - §4928.02*(N) Facilitate the state's effectiveness in the global economy. In carrying out this policy, the commission shall consider rules as they apply to the costs of electric distribution infrastructure, including, but not limited to, line extensions, for the purpose of development in this state.*

OVERVIEW OF SIGNIFICANT BENEFITS OF THE PROPOSED ESP II

Q. WHAT ARE THE ADDITIONAL CUSTOMER BENEFITS IN THIS PROPOSAL AS COMPARED TO THE STIPULATED AGREEMENT THAT WAS REACHED SEPTEMBER 7, 2011?

A. There are several noteworthy overall benefits in this proposed ESP II that were not in the stipulated agreement. I have summarized some of the key differences, many of which came from input the Company received from stakeholders, as follows:

- Overall rate increases, including increases to individual customers in every class, will be modest during the term of the ESP II – see Company witness Roush direct testimony;
- Energy auctions of AEP Ohio’s SSO load for delivery beginning January 2015, with a 5% slice-of-system energy auction for delivery as early as six months after final Commission decisions in, both, ESP II and corporate separation cases as filed – see Company witness Powers direct testimony;
- Higher percents of Tier 1 priced capacity for governmental aggregation initiatives, non-mercantile customers, in 2012 even if the level of Tier 1 Set-Aside has been exceeded – see Company witness Allen direct testimony;
- Frozen non-fuel generation rates, equivalent to those that were in effect at the end of ESP I in 2011, during the ESP II period – see Company witness Roush direct testimony;
- Stability provided by a delay in the implementation of the Phase-In Recovery Rider and unification of the FAC, in order to minimize customer rate impacts, until June 1, 2013 – see Company witness Roush direct testimony;

- Elimination of the Market Transition Rider (MTR) and Load Factor Rider (LFR) to minimize customer rate impacts.

Q. PLEASE EXPLAIN SOME OF THE MAJOR CHANGES FROM THE ORIGINAL ESP (2009-2011) PROPOSED BY THE COMPANY.

A. AEP Ohio's ESP II is proposing the same non-fuel generation rates that were in effect at the end of ESP I in 2011. No automatic increases during the term of the ESP II are being proposed. As described by Company witness Roush, the Company did relocate the current level of charges under the current Environmental Investment Carrying Cost Rider (EICCR) into base generation rates and eliminated the EICCR. From the customer's perspective, the same equivalent non-fuel base generation rate is being proposed. This provision significantly improves rate stability and predictability for customers, while shifting risks to AEP Ohio.

Q. IS AEP OHIO REQUESTING ALL THE RIDERS PROPOSED IN ITS INITIAL ESP II APPLICATION IN JANUARY 2011?

A. No. In this modified ESP II, AEP Ohio has eliminated many of its initially requested riders. The Company has dropped its request for the Facilities Closure Cost Recovery Rider, NERC Compliance Cost Recovery Rider, Carbon Capture Sequestration Rider, and the Provider of Last Resort Rider.

Q. WILL THE COMPANY CONTINUE AN EICCR RIDER IN THE ESP II?

A. No. The Company has also eliminated the Environmental Investment Carrying Cost Rider (EICCR) too. The removal of this rider will also provide a simple, easy to compare generation rate. The removal of the EICCR offers no assurance that the Company will get recovery of environmental retrofit investments through market-based rates. These investments will likely be the result of future U.S. Environmental Protection Agency (EPA) rules.

Q. DOES THE PROPOSED ESP II INCREASE BUSINESS AND FINANCIAL RISK ASSOCIATED WITH ENVIRONMENTAL REQUIREMENTS?

A. With the elimination of the EICCR and a lack of future cost recovery mechanism, this means that the Company, rather than Ohio retail customers, will bear the risk of making environmental retrofit investments.

Q. WHAT OTHER CUSTOMER BENEFITS, INCLUDING RATE IMPACTS, ARE BEING PROPOSED IN ESP II?

A. AEP Ohio is proposing to provide generation capacity to CRES providers at a significant discount from what it would otherwise be willing to charge. The benefits of this deeply discounted capacity provision, as explained by Company witness Allen, will continue to promote robust shopping alternatives for customers.

In order to minimize customer rate impacts, the Company is proposing a delay in the implementation of unified Fuel Adjustment Clause (FAC) rate zones, along with a delay in the collection of its Phase-In Recovery Rider (PIRR). During the delay period, the Company will continue to accrue a WACC carrying charge on the PIRR. The recovery of the deferred PIRR balance will commence June 1, 2013 until fully amortized by December 31, 2018. As discussed in further detail in Company witness Roush testimony, the Company's recommendation is to merge both rates (zones) for both the FAC and PIRR to be effective June 1, 2013.

Q. PLEASE SUMMARIZE THE BENEFITS OF THE PROPOSED DISTRIBUTION INVESTMENT, THE CONTINUATION OF GRIDSMART®, VEGETATION

MANAGEMENT AND ENERGY EFFICIENCY/PEAK DEMAND REDUCTION RIDERS.

A. AEP Ohio's ESP II contains a balanced set of supply options, customer programs, and associated rate mechanisms. Company witness Kirkpatrick discusses investment opportunities, as well as a comprehensive distribution investment plan designed under the Distribution Investment Rider (DIR) to enhance system performance and reliability for customers, which will be collected through the proposed DIR.

This ESP II proposal also reflects a continuation of the successful vegetation management program that was previously approved by the Commission - the Enhanced Service Reliability Rider (ESRR). Company witness Hawkins is supporting an updated levelized carrying charge that can be used to update this rider in the future once approved.

The Phase I gridSMART® investments will continue to be recovered under the Company's gridSMART® rider. Customer benefits include continuation of the gridSMART® programs initially authorized under ESP I, which offer customers advanced energy information and control through a modernized distribution infrastructure which also supports improved service reliability. Company witness Hawkins is supporting an updated levelized carrying charge that can be applied to the rider calculation once approved.

AEP Ohio's innovative energy efficiency programs will continue through the ESP II period, collected through the Energy Efficiency and Peak Demand Reduction Rider (EE/PDR). In implementing the Commission's Alternative Energy Portfolio Standard rules, AEP Ohio led a DSM collaborative during the 2009-2011 ESP period to develop energy efficiency and demand response programs for all customer segments, as outlined in Case No. 09-1089-EL-POR and Case No. 09-1090-EL-POR. Through implementation of these programs, AEP Ohio customers have the potential to save approximately $630 million in reduced electricity bills over the life of the programs, helping to reduce power plant emissions. As our Portfolio Status Report indicates, AEP Ohio's energy efficiency and peak demand response programs were very successful in 2009 and 2010, and it is expected that the 2011 report to be filed in May, 2012 will continue that success, achieving the benchmark requirements for both programs.

Q. IS THE COMPANY PROPOSING TO CONTINUE AND ENHANCE THE AVAILAIBLITY OF INTERRUPTIBLE SERVICE TO SUPPORT ECONOMIC DEVELOPMENT IN ITS SERVICE TERRITORY?

A. Yes. AEP Ohio proposes to continue the availability of its interruptible service under Schedule/Rider IRP-D as discussed by Company witness Roush. Service under IRP-D is available to current interruptible customers; current firm customers that wish to take interruptible service, up to a specified total MW limit; and to loads of new customers locating within the Company's service area as part of an economic development or competitive response incentive. In addition, subject to approval of the RSR, the Company is willing to increase the IRP-D credit. This will benefit existing interruptible customers which are major employers in the state as well as enhance AEP Ohio's economic development efforts. Additional details of the RSR are discussed by Company witnesses Powers and Allen.

Q. PLEASE EXPLAIN THE BENEFITS OF THE ECONOMIC DEVELOPMENT COST RECOVERY RIDER ASSOCIATED WITH REASONABLE ARRANGEMENTS.

A. Continuation of the Economic Development Cost Recovery Rider (EDR) for reasonable arrangements with mercantile customers, approved by the Commission, facilitates the state's effectiveness in a global economy. The EDR supports mercantile customers that retain and increase Ohio jobs.

Q. PLEASE EXPLAIN THE BENEFITS OF THE GENERATION RESOURCE RIDER (GRR).

A. The GRR helps the EDU to address long-term capacity needs by providing the opportunity to build additional generation if needed in the future. More specifically, the Company expects to present to the Commission during this ESP II period details on an investment opportunity in a 49.9MW solar project called Turning Point Solar LLC. If approved by the Commission, the Company would expect cost recovery for its investment in the Turning Point project through the GRR, as explained by Company witness Nelson. The need portion of that analysis is already under review by the Commission in Commission case numbers 10-501-EL-FOR and 10-502-EL-FOR. Investment opportunities for AEP Ohio in new generating resources, such as the solar project described above, are a noteworthy customer benefit of this plan, in that it provides for a path to cost-based generating pricing that can serve as a hedge against potentially volatile market prices.

The proposed ESP II supports ongoing investment in Ohio, not only in the delivery infrastructure previously discussed, but also the potential for generating assets described above. Taken together the supply and delivery business segments form the foundation of AEP Ohio's substantial economic impact in the state. These activities include payroll taxes associated with thousands of Ohio jobs, purchases of Ohio goods and services, taxes that provide critical funding for Ohio schools, infrastructure, and public services, and substantial philanthropic support for Ohio.

ALTERNATIVE ENERGY STANDARDS

Q. PLEASE SUMMARIZE HOW S.B. 221 IMPACTS AEP OHIO IN ACHIEVING ITS PLAN FOR THE FUTURE.

A. S.B. 221 and Ohio's Renewable Portfolio Standard (RPS) impact AEP Ohio's investment planning to meet compliance mandates. AEP Ohio's announcement of the investment opportunity with Turning Point Solar LLC, a new Ohio joint venture company, represents a significant action to comply with state standards/benchmarks. To successfully move forward with this project, the Company will need Commission approval on three items: 1) will need to affirm the need for the proposed project[2], 2) the Commission will need to affirm the establishment of the Company's proposed GRR, which will serve as the mechanism to recover investments in generation resources by an EDU as provided for under SB 221, and 3) affirm the prudency of the project given the many benefits to the state, including the establishment of a new manufacturing facility to supply the project. A cost recovery mechanism like the GRR for investments in alternative energy projects is critical to meeting alternative energy requirements of the state of Ohio.

Q. PLEASE ELABORATE ON AEP OHIO'S POSITION REGARDING RENEWABLES STANDARD RESOURCE REQUIREMENTS.

---

[2] The need portion of that analysis is already under review by the Commission in Commission case numbers 10-501-EL-FOR and 10-502-EL-FOR.

A. AEP Ohio has complied with the renewable resource requirements set forth in Section 4928.64 (B)(2), Ohio Revised Code, and has contracted with wind and solar developers to invest in applicable renewable resources and achieve the necessary levels of compliance in the most cost effective manner available. In the proposed ESP II, these contracts and additional renewable pacts will be secured to meet future compliance goals and help spur Ohio economic development. Please see Company witnesses Godfrey and Nelson for specifics regarding renewable supplies and the proposed cost recovery process.

<u>CONCLUSION</u>

Q. WHAT ARE YOUR OVERALL CONCLUSIONS ABOUT THE PROPOSED MODIFIED ESP II?

A. My overall conclusion is that AEP Ohio has proposed an ESP II that is committed to implementing 100% auction-based SSO pricing as soon possible after a reasonable transition period. The proposed ESP II promotes state policies, has significant customer benefits, allows for robust customer competition by CRES providers and is better than an MRO alternative, in the aggregate.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Ohio Power Company's Direct Testimony of Selwyn J. Dias has been served upon the below-named counsel and Attorney Examiners by electronic mail to all Parties this 30th day of March, 2012.

/s/ Steven T. Nourse

greta.see@puc.state.oh.us,
jeff.jones@puc.state.oh.us,
Daniel.Shields@puc.state.oh.us,
Tammy.Turkenton@puc.state.oh.us,
Jonathan.Tauber@puc.state.oh.us,
Jodi.Bair@puc.state.oh.us,
Bob.Fortney@puc.state.oh.us,
Doris.McCarter@puc.state.oh.us,
Greg.Price@puc.state.oh.us,
Stephen.Reilly@puc.state.oh.us,
Werner.Margard@puc.state.oh.us,
William.Wright@puc.state.oh.us,
Thomas.Lindgren@puc.state.oh.us,
john.jones@puc.state.oh.us,
dclark1@aep.com,
grady@occ.state.oh.us,
keith.nusbaum@snrdenton.com,
kpkreider@kmklaw.com,
mjsatterwhite@aep.com,
ned.ford@fuse.net,
pfox@hilliardohio.gov,
ricks@ohanet.org,
stnourse@aep.com,
cathy@theoec.org,
dsullivan@nrdc.org,
aehaedt@jonesday.com,
dakutik@jonesday.com,
haydenm@firstenergycorp.com,
dconway@porterwright.com,
jlang@calfee.com,
lmcbride@calfee.com,
talexander@calfee.com,
etter@occ.state.oh.us,
grady@occ.state.oh.us,
small@occ.state.oh.us,
cynthia.a.fonner@constellation.com,
David.fein@constellation.com,
Dorothy.corbett@duke-energy.com,
Amy.spiller@duke-energy.com,
dboehm@bkllawfirm.com,
mkurtz@bkllawfirm.com,
ricks@ohanet.org,
tobrien@bricker.com,
jbentine@cwslaw.com,
myurick@cwslaw.com,
zkravitz@cwslaw.com,
jejadwin@aep.com,
msmalz@ohiopovertylaw.org,
jmaskovyak@ohiopovertylaw.org,
todonnell@bricker.com,
cmontgomery@bricker.com,
lmcalister@bricker.com,
mwarnock@bricker.com,
gthomas@gtpowergroup.com,
wmassey@cov.com,
henryeckhart@aol.com,
laurac@chappelleconsulting.net,
whitt@whitt-sturtevant.com,
thompson@whitt-sturtevant.com,
sandy.grace@exeloncorp.com,
cmiller@szd.com,
ahaque@szd.com,
gdunn@szd.com,
mhpetricoff@vorys.com,
smhoward@vorys.com,
mjsettineri@vorys.com,
lkalepsclark@vorys.com,
bakahn@vorys.com,
Gary.A.Jeffries@dom.com,
Stephen.chriss@wal-mart.com,

dmeyer@kmklaw.com,
holly@raysmithlaw.com,
barthroyer@aol.com,
philip.sineneng@thompsonhine.com,
carolyn.flahive@thompsonhine.com,
terrance.mebane@thompsonhine.com,
cmooney2 @columbus.rr.com,
drinebolt@ohiopartners.org,
trent@theoeg.com,
nolan@theoec.org,
gpoulos@enernoc.com,
emma.hand@snrdenton.com,
doug.bonner@snrdenton.com,
clinton.vince@snrdenton.com,
sam@mwncmh.com,
joliker@mwncmh.com,
fdarr@mwncmh.com,
jestes@skadden.com,
paul.wight@skadden.com,
dstahl@eimerstahl.com,
aaragona@eimerstahl.com,
ssolberg@eimerstahl.com,
tsantarelli@elpc.org,
callwein@wamenergylaw.com,
malina@wexlerwalker.com,
jkooper@hess.com,
kguerry@hess.com,
afreifeld@viridityenergy.com,
swolfe@viridityenergy.com,
korenergy@insight.rr.com,
sasloan@aep.com,
Dane.Stinson@baileycavalieri.com,
cendsley@ofbf.org

AEP OHIO EXHIBIT NO.__________

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to §4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan.	))))))	Case 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

DIRECT TESTIMONY OF

PHILIP J. NELSON

IN SUPPORT OF AEP OHIO'S

MODIFIED ELECTRIC SECURITY PLAN

Filed: March 30, 2012

INDEX TO DIRECT TESTIMONY OF
PHILIP J. NELSON

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
PHILIP J. NELSON
IN SUPPORT OF
AEP OHIO'S MODIFIED ELECTRIC SECURITY PLAN

PERSONAL DATA

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Philip J. Nelson. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. PLEASE INDICATE BY WHOM YOU ARE EMPLOYED AND IN WHAT CAPACITY.

A. I am employed as Managing Director of Regulatory Pricing and Analysis in the Regulatory Services Department of American Electric Power Service Corporation (AEPSC), a wholly owned subsidiary of American Electric Power Company, Inc. (AEP). AEP is the parent company of Ohio Power Company (AEP Ohio or Company).

BUSINESS EXPERIENCE

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I graduated from West Liberty University in 1979 receiving a Bachelor of Science Degree in Business Administration, majoring in accounting. In 1979, I was employed by Wheeling Power Company (WPCo), an affiliate of AEP, in the Managerial Department. At Wheeling Power, I was responsible for rate filings with the Public Service Commission of West Virginia (PSC), for resolving customer complaints made to the PSC, as well as for preparation of the Company's operating budgets and capital forecasts. In 1996 I transferred to the AEP-West Virginia State Office in Charleston, West Virginia as a senior rate analyst. In 1997 I transferred to AEPSC as a senior rate consultant in the Energy Pricing and Regulatory Services Department, with my primary responsibility being the oversight of AEP Ohio's Electric Fuel Component (EFC) filings. In 1999 I transferred to the Financial Planning Section of the Corporate Planning and Budgeting Department where I helped prepare AEP financial forecasts. I held various positions in the Corporate Planning and Budgeting Department until my transfer to Regulatory Services in February, 2010.

Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR OF REGULATORY PRICING AND ANALYSIS?

A. My department supports regulatory filings across the AEP system in the areas of cost of service, rate design, cost recovery trackers and tariff administration. It also provides expert witness testimony on AEP's east and west power pools as well as technical advice and support for power settlements and performs financial analysis of changes to AEP's generation fleet. In addition, my department provides support and filing of generation and transmission formula rate contracts.

Q. HAVE YOU EVER SUBMITTED TESTIMONY AS A WITNESS BEFORE A REGULATORY COMMISSION?

A. Yes. I have testified before the Virginia State Corporation Commission and the Public Service Commission of West Virginia on behalf of Appalachian Power Company (APCo), before the Public Service Commission of West Virginia on behalf of WPCo, before the Indiana Utility Regulatory Commission on behalf of Indiana Michigan Power Company (I&M) and before the Public Utilities Commission of Ohio (Commission) on behalf of Columbus Southern Power Company (CSP) and Ohio Power Company (AEP Ohio).

PURPOSE OF TESTIMONY

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

A. I provide an overview of the Company's corporate separation plan being filed in a separate application before this Commission. I present information responsive to the Commission's directive in its March 7, 2012 in Case 10-2376-EL-UNC,et al. to address the plan for AEP Ohio's generating assets, including retirements and divestitures. I describe the Standard Service Offer (SSO) contract between AEP Ohio and AEP Generation Resources Inc. (Genco). I discuss the current Fuel Adjustment Clause (FAC) and the Company's request to continue the FAC for part of the ESP Term. I propose a new Alternative Energy Rider (AER) which will segregate the Renewable Energy Credit (REC) value from Renewable Energy Purchase Agreements (REPAs). I discuss the creation of a new rider to recover costs associated with investment in new generation resources dedicated to retail customers, the Generation Resource Rider (GRR). I sponsor a pool termination provision to recover potential increases in rates if needed as a result of termination of the AEP Interconnection Agreement (AEP Pool).

Q. WHAT EXHIBITS ARE YOU SPONSORING IN THIS PROCEEDING?

A. I am sponsoring Exhibits PJN-1 through PJN-4:

Exhibit PJN-1 provides a pre and post-corporate separation chart of AEP Ohio, the other AEP East operating companies and AEP Generation Resources Inc. (Genco)

Exhibit PJN-2 provides a list of current AEP Ohio and other AEP East System generating units that are estimated to be retired before June 1, 2015.

Exhibit PJN-3 provides a schedule showing AEP Pool capacity sales and purchases for 2010 and 2011

Exhibit PJN-4 provides additional information on the FAC as required by Ohio Administrative Code (O.A.C.) 4901:1-35-03(C)(9)(a).

CORPORATE SEPARATION PLAN

Q. WOULD YOU PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S CORPORATE SEPARATION PLAN FILED CONCURRENTLY WITH THIS ESP?

A. Yes. The principal purpose of the Corporate Separation filing is to achieve full structural corporate separation of AEP Ohio's generation and marketing businesses, on the one hand, from its transmission and distribution businesses, on the other, consistent with Ohio's corporate separation mandate. Corporate Separation is a fundamental requirement of the Company's plan that will lead to full market-based pricing of generation service for retail customers and will promote retail shopping in Ohio.

Pursuant to Corporate Separation, transmission and distribution-related assets of AEP Ohio will remain in AEP Ohio, which will essentially be a wires-only company upon closing, as more fully described below. AEP Ohio's existing generation units and contractual entitlements, fuel-related assets and contracts, and other assets related to the generation business will be transferred at net book value to Genco. AEP Ohio does not plan to transfer its renewable purchase agreements to Genco. That way, the renewable energy credits associated with those agreements will stay with AEP Ohio, which will remain subject to state-imposed renewable energy obligations. Genco will also assume at closing the liabilities associated with the transferred assets including the retired plants and the liabilities associated with the retired plants.

Immediately after transferring the assets and liabilities to Genco, APCo will obtain the transferred interest in Unit No. 3 of the Amos generating plant and appurtenant interconnection facilities and related assets and liabilities (APCo already owns the remaining interest in Amos Unit No. 3) and an 80% undivided interest in the Mitchell generating plant and appurtenant interconnection facilities and related assets and liabilities (collectively, "Mitchell"), and Kentucky Power Company (KPCo) will obtain the remaining 20% undivided interest in Mitchell.

The long-term indebtedness of AEP Ohio is composed of general obligations that are not secured by the generation assets being transferred to Genco or by any other assets of the company. This unsecured, long-term indebtedness currently consists of two types: senior notes ("Senior Notes") and pollution control revenue bonds ("PCRBs"). In order to manage debt maturities before the closing of Corporate Separation, AEP Ohio may issue new notes to AEP and use the proceeds to repay those debt maturities in the normal course of business. The notes would be subject to approval by the Commission. Company witness Hawkins provides more detail on the financing issues associated with Corporate Separation.

The proposed Corporate Separation plan includes several steps, each of which will occur one after another at closing. The steps of the transaction are detailed in the Corporate Separation filing being made with this Commission. Exhibit PJN-1 is a chart showing AEP Ohio, the other AEP East operating companies and the Genco on a pre and post-corporate separation basis..

The Applicants intend to close the Corporate Separation transaction on January 1, 2014.

SSO CONTRACT BETWEEN AEP OHIO AND THE GENCO

Q. IS THERE A CONTRACT NECESSARY BETWEEN AEP OHIO AND THE GENCO FROM THE DATE OF SEPARATION UNTIL THE SSO LOAD IS SERVED BY THE RESULTS OF AN AUCTION?

A. Yes. In this ESP, the Company is proposing that there will be an auction-based competitive bidding process for the delivery period beginning January 1, 2015 for energy and a separate auction for delivery beginning June 1, 2015 for both energy and capacity. Therefore, between the time of Corporate Separation and the delivery date of the January 1, 2015 SSO energy auction, the Genco will sell wholesale power to AEP Ohio under a full requirements agreement to supply AEP Ohio's non-shopping retail load. The SSO Contract will allow AEP Ohio to serve SSO customers, i.e., those AEP Ohio retail customers that are not being served by a Competitive Retail Electric Service (CRES) provider. From January 1, 2015 through May 31, 2015 the Genco will provide capacity at $255/MW-Day, but will no longer supply the energy for SSO customers under the SSO contract. Beginning June 1, 2015 both energy and capacity will be provided by the SSO auction and therefore the SSO contract between the Genco and AEP Ohio ends on that date.

Q. WHAT WILL THE COMPANY PROPOSE FOR FERC APPROVAL THAT PROVIDES GENCO COMPENSATION FOR MEETING AEP OHIO'S ENERGY AND CAPACITY OBLIGATIONS AFTER CORPORATE SEPARATION AND UNTIL JUNE 1, 2015?

A. In general, AEP Ohio will pass through generation related revenues to the Genco for providing capacity and/or energy for the SSO load. AEP Ohio will pay the Genco the non-fuel generation charges billed to AEP Ohio's SSO customers under applicable retail rate schedules, as well as the Genco's actual fuel costs. AEP Ohio will also reimburse Genco, on a dollar-for-dollar basis, for any transmission, ancillary, and/or other service charges that Genco may be billed by PJM in connection with the SSO Contract.

In addition, revenues that AEP Ohio may receive from PJM in connection with capacity payments made by CRES providers under PJM's Reliability Assurance Agreement ("RAA") would be remitted to the Genco in return for Genco providing capacity to AEP Ohio to fulfill AEP Ohio's Fixed Resource Requirement (FRR) obligations, as well as the obligations of the CRES providers. Also, capacity payments will be made by AEP Ohio to the Genco at $255/MW-Day in connection with the energy only auctions occurring while AEP Ohio is still an FRR entity in PJM.

Also, any revenues related to moving to a competitive generation market in Ohio, such as the Retail Stability Rider, will be remitted to the Genco as compensation for the fulfillment of its obligations.

Q. WHY IS THE AUCTION FROM JANUARY 1, 2015 THROUGH MAY 31, 2015 AN ENERGY ONLY AUCTION AND THE GENCO PROVIDES THE CAPACITY?

A. AEP Ohio and the AEP East system are contractually obligated to remain a FRR entity in PJM until June 1, 2015. In the following section I explain the significance of this contractual obligation.

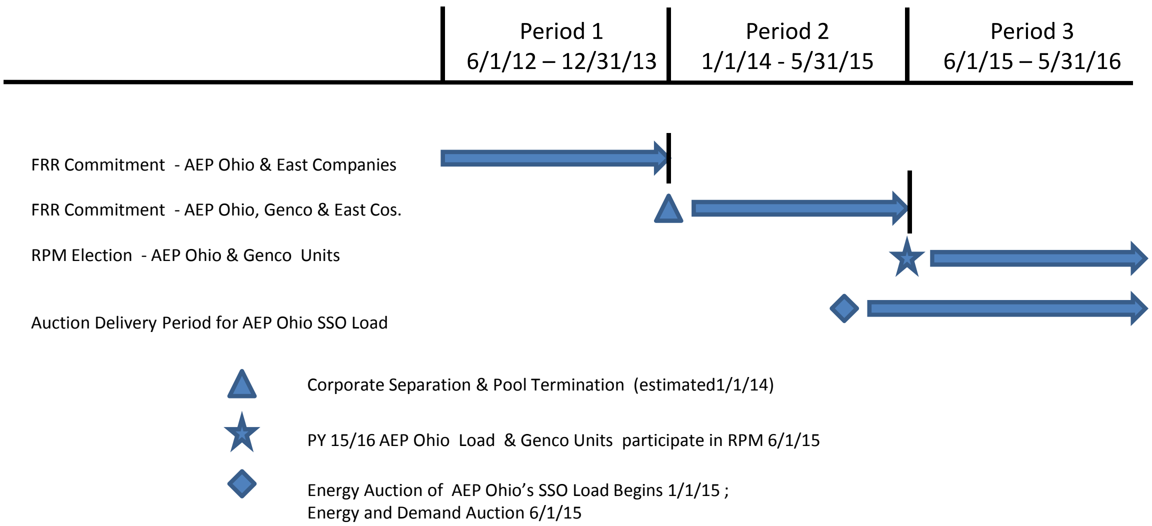
Q. CAN AN AUCTION BASED SSO BE ESTABLISHED FOR AEP OHIO'S NON-SHOPPING LOAD BEFORE CORPORATE SEPARATION IS IMPLEMENTED AND BEFORE THE AEP POOL IS TERMINATED?

A. No, not without the potential to expose AEP Ohio or other AEP Pool members to significant financial harm. First, the AEP Pool was not designed for, nor does it have specific provisions that would address this situation. Therefore, conducting an SSO auction could have substantial impacts on the other members or subject them to recovery risks in their state jurisdictions. Conversely, depending on how an auction is treated for AEP Pool settlements, AEP Ohio might be exposed to significant financial harm. It would also potentially remove AEP Ohio's generation from participating in the SSO auction due to the timing difference between the auction and Corporate Separation.

AEP OHIO CAPACITY PLAN

Q. PLEASE DESCRIBE THE COMPANY'S PLANS FOR FULFILLING ITS LOAD OBLIGATION FROM CAPACITY RESOURCES DURING THE TERM OF THIS ESP INCLUDING PLANS TO DIVEST, RETIRE, AND ADD CAPACITY AND EXPLAIN WHETHER ADEQUATE CAPACITY WILL BE AVAILABLE ON AN ON-GOING BASIS TO OHIO CUSTOMERS?

A. First, as previously discussed, the Company is requesting in a separate filing the authorization to transfer its generating assets to Genco, a separate legal entity, during the course of this ESP. This transfer of the generating assets is necessary to ensure the Company's customers receive auction based SSO pricing in an efficient and expeditious manner. Through the PJM planning year 2014/2015 (PY14/15) AEP Ohio together with the other AEP East operating companies, APCo, I&M, KPCo, Kingsport Power Company and WPCo, have elected as a group (East System) to be under the FRR option in PJM. This requires the East System to provide its own capacity resources to meet its load obligations rather than rely on the PJM RPM market to provide capacity resources. Beginning with PY15/16, AEP Ohio will be separate and distinct from other East System Companies in PJM and has elected to be in the Reliability Pricing Model (RPM) capacity market for its SSO load. Therefore, there are three distinct periods that result in different obligations for the planning of capacity resources. The first period (Period 1) is prior to Corporate Separation and prior to PY15/16. The second period (Period 2) is after Corporate Separation and prior to PY15/16. The third period (Period 3) begins with AEP Ohio's election to to bid its SSO load into the RPM capacity market beginning in PY15/16. The following diagram shows the three periods just discussed.



For periods 1 and 2, the FRR obligation has not changed for the East System. The East companies must continue to provide capacity for all the loads that were submitted to PJM as FRR. The FRR obligation includes the load of AEP Ohio for its SSO customers, as well as the shopping load that is now served by CRES suppliers in AEP Ohio's service territory. After Corporate Separation (Period 2) the FRR generation obligation of AEP Ohio will be assigned to the Genco, which together with the rest of the East System Companies will continue to be required to meet the East System load that has been designated FRR, which includes AEP Ohio's shopping (CRES) and non-shopping (SSO) loads. Beginning with AEP Ohio's election of RPM (Period 3), AEP Ohio is separate from the other East System Companies and the AEP Ohio SSO load is included in PJM's RPM market.

Q. HOW DOES AEP OHIO MEET ITS FRR OBLIGATION?

A. For planning years 12/13, 13/14, and 14/15 certain AEP East generation units and contracts have been committed to PJM as part of the AEP System commitment to meet East System load that has been previously designated FRR. AEP Ohio units and contracts are part of the total pool of generating resources designated by AEPSC on behalf of the East System and there is no requirement to meet the AEP Ohio zone load separate and apart from the other Eastern companies. PJM considers AEP a single zone. The designation of generating resources as FRR is an election made prior to the delivery year. In 2009, resources were committed for PY12/13. In 2010 and 2011 commitments for PY13/14, and PY14/15 were made, respectively. The East System generation resources committed to FRR are provided to PJM three years in advance of the planning year.

Q. WHAT ARE THE PLANNED RETIREMENTS FOR AEP OHIO AND THE AEP EAST SYSTEM GENERATING UNITS AND HOW DO THE RETIREMENTS AFFECT THE AEP EAST SYSTEM'S ABILITY TO MEET ITS FRR OBLIGATION?

A. Exhibit PJN-2, page 1 provides the list of the AEP East System units estimated to retire before June 1, 2015 that was provided to PJM. The ultimate retirement dates for these units will be based on implementation of the new EPA environmental regulations. The East System, based on earlier drafts of the EPA rules, had anticipated and planned for a certain level of retirements during this period. Therefore, at this time the Company believes the East System is in a position to meet its FRR load obligation based on its current capacity resources. Page 2 of Exhibit PJN-2 shows the MW of retirements as a percent of AEP Ohio's fossil generation compared to the retirements of the other East System companies. As can be seen from page 2 of this exhibit the planned retirements are balanced. I show this comparison before and after the Amos and Mitchell unit transfers.

Q. YOU MENTIONED THAT AEP OHIO IS PLANNING TO CORPORATELY SEPARATE AND TRANSFER ITS GENERATING ASSETS TO THE GENCO. IF ASSETS ARE THEN TRANSFERRED FROM THE GENCO TO OTHER AEP AFFILIATES, WILL THIS AFFECT AEP OHIO'S ABILITY TO MEET ITS FRR COMMITMENT?

A. No. As I previously mentioned, AEP Ohio's FRR commitment will be assigned to the Genco upon Corporate Separation, so such "step two" transfers have no impact. Also, as I explained, the FRR commitment has always been done on a system basis, not an individual company basis so the transfer between affiliates will have no impact on the AEP Ohio/East System's ability to meet the FRR load obligation. Furthermore, AEP Ohio has had capacity and energy well in excess of its own internal customer's needs for a number of years and has been selling a significant amount of this surplus generation through the AEP Pool to its affiliates. In 2010 and 2011, AEP Ohio sold about 2,500 megawatts (MWs) and 2,200 MWs respectively to other AEP Pool members. This is shown on Exhibit PJN-3. In order to equitably terminate the AEP Pool, AEP is planning to transfer AEP Ohio's share of Amos 3 and the AEP Ohio Mitchell units to APCo and KPCo which are affiliates and members of the AEP Pool. These units comprise approximately 2,500 MW of capacity.

Q. HOW WILL AEP OHIO MEET ITS RPM CAPACITY LOAD OBLIGATION FOR PY15/16 AND GOING FORWARD AFTER IT BECOMES AN RPM ENTITY IN PJM?

A. It is anticipated that by PY15/16 AEP Ohio will have corporately separated and become primarily a wires company and will be holding auctions to serve any remaining retail SSO load in Period 3. AEP Ohio will bid its SSO load into the PJM RPM market. PJM procures capacity on behalf of LSEs through the RPM auction. CRES providers serving customers in AEP Ohio's territory will procure their own capacity via the PJM auction and no longer be able to rely on AEP Ohio's capacity resources as they have for the planning years preceding PY15/16 when AEP Ohio was an FRR entity.

Q. CAN AEP OHIO STILL PROCURE ITS OWN CAPACITY RESOURCES OUTSIDE THE RPM AUCTION TO SERVE ITS SSO LOAD OBLIGATION?

A. Yes. There is nothing in the PJM RPM requirements that preclude AEP Ohio from owning or purchasing capacity resources. Resources owned would need to be bid into the RPM auction. Likewise, it is my understanding that AEP Ohio as an Electric Distribution Utility (EDU) in Ohio can own or operate a generation facility under provisions of the ESP statute.

Q. IS THE COMPANY PROPOSING TO OWN OR OPERATE GENERATION FACILITIES UNDER 4928.143(C)?

A. Yes, later in my testimony I discuss the GRR, including the Turning Point project which will be requested under this provision of the ESP statute in a separate filing. AEP Ohio considers the request for Turning Point rather unique. The Company has no plans for additional capacity additions under this provision. The Company will rely on the RPM market to fulfill the Company's SSO capacity obligation beginning in PY15/16. As I mentioned earlier, it is PJM's responsibility to ensure that there is adequate capacity under the RPM construct to meet the capacity requirements of all the loads in PJM., Finally in this regard, Company witness Graves discusses the operation of PJM markets in more detail.

THE FUEL ADJUSTMENT CLAUSE (FAC)

Q. PLEASE REVIEW THE CURRENT FAC.

A. The Companies' current FAC began in 2009 as part of the 2009-2011 ESP. The FAC recovers the actual cost of fuel, purchased power, including capacity and other variable production costs such as environmental variable costs.

Q. PLEASE REVIEW THE ACCOUNTS INCLUDED IN THE CURRENT FAC.

A. The following is a list of accounts that are currently included in the FAC along with a brief description of each account.

- **501 Fuel –** This account includes the cost of fuel and transportation costs used in the production of steam for generation of electricity. For the Companies, this is the vast majority of variable costs associated with energy production. The fees associated with the FAC audit are also charged to this account.
- **502 Steam Expenses (Environmental subaccounts) –** This account includes the cost of material and expenses used in the production of steam for the generation of electricity. In recent years the majority of the expenses recorded in this account have been for chemicals used in environmental equipment such as selective catalytic reduction (SCR) equipment and flue gas desulfurization

(FGD) equipment. These chemicals are referred to as environmental consumables and include lime, limestone, trona, and urea. Lime and limestone are used in FGDs to remove sulfur from the post combustion process. Urea is the primary chemical agent used in the removal of NO_X. Trona is necessary to hinder the formation of SO_3, where an FGD and SCR are used in tandem. Any new environmental-related chemicals that may be required in the future will be included in the FAC.

- **509 Allowances –** This account records the cost of emission allowances to cover the emission of effluents such as SO_2 and NO_X.
- **518 Nuclear Fuel Expense –** This account includes the net amortization of the cost of nuclear fuel assemblies. The Companies do not own or operate a nuclear generating plant, are not currently incurring this cost, and are not expecting to incur this expense in the foreseeable future.
- **547 Fuel –** This account includes the cost of fuel used in facilities other than steam electric generation, such as a simple cycle gas peaking unit. Fuel costs for combined cycle gas plants are recorded in Account 501.
- **555 Purchased Power –** This account records the cost of electricity purchases including transactions under the AEP Pool and renewable energy contracts. It includes both energy and demand or capacity charges. PJM Interconnection L.L.C. (PJM) ancillary services that are recorded in Account 555 are not included in the FAC, but are included in the Transmission Cost Recovery Rider (TCRR).

- **507 Rents (Applicable subaccounts only) –** If a purchased power contract or unit power sale is required to be recorded as a lease per accounting rules, then the demand charge associated with the purchased power contract may be recorded in this account. Currently, there are no demand charges recorded in this account for the Companies.
- **557 Other Expenses (Power Supply – applicable subaccounts only) –** This account records the cost of renewable energy credits (RECs) to meet the renewable requirements of S.B. 221.
- **411.8 Gains from Disposition of Allowances and 411.9 Losses from Disposition of Allowances –** If gains or losses are experienced on the sale or other disposition of emission allowances, they are recorded in these accounts. Regular sales of allowances occur at the annual EPA auction resulting in gains each year. Sales to third parties are periodically made and settlements under the Federal Energy Regulatory Commission (FERC) approved AEP Interim Allowance Agreement (IAA) can result in gains and losses.
- **Other Accounts and subaccounts –** If environmental, fuel, purchased power and renewable expenses or taxes are recorded in accounts or subaccounts not specifically mentioned in this testimony, the Companies may include them in the FAC. For example a carbon tax could be implemented and recorded in a tax account. Clearly, such a federally mandated carbon or energy tax would be recoverable though the FAC.

Q. IS THE COMPANY PROPOSING TO CONTINUE THE FAC IN THIS ESP?

A. Yes, but only until the Company's SSO load is supplied through the auction process, which would begin January 1, 2015. At that time the Company will implement a rider which will recover the purchased power expense resulting from the auction for the load not served by a CRES. For the period from Corporate Separation until SSO load is supplied through the auction process, the Genco will bill AEP Ohio its actual fuel costs, in the same or similar form and detail as contained in current FAC monthly accounting done by AEP Ohio. In addition, the Company is proposing to modify the FAC by removing Account 557 and the REC expense from the fuel clause, and recovering REC expense through the new AER. In addition, bundled purchased power products, or REPAs, currently recorded in Account No. 555, will be split into their REC and non-REC components. The REC component will be recovered through the AER and the non-REC portion will continue to be recovered through the FAC. The AER will continue through the full term of the ESP. I will discuss the AER later in this testimony.

Q. IN ADDITION TO THE INFORMATION YOU HAVE ALREADY PROVIDED ON THE FAC, ARE YOU PROVIDING ANY ADDITIONAL INFORMATION PURSUANT TO O.A.C. 4901:1-35-03(C)(9)(a)?

A. Yes Exhibit PJN-4 provides additional information as specified in this section of the O.A.C., including the generating plants currently owned by AEP Ohio that the FAC cost pertains to and a narrative pertaining to the Company's procurement policies and procedures regarding FAC fuel costs, this information is applicable for the period before Corporate Separation occurs.

<u>THE ALTERNATIVE ENERGY RIDER (AER)</u>

Q. WHAT MECHANISM IS THE COMPANY PROPOSING FOR THE RECOVERY OF REC EXPENSE IN THIS ESP?

A. The Company is proposing to begin recovery of REC expense, associated with REPAs or acquired directly, via the AER starting with the implementation of this ESP. The energy and capacity portions of renewable energy would continue be recovered under the FAC, while it exists. After the FAC terminates, energy and capacity associated with the REPAs will be sold into the PJM market and netted against the total cost of the REPA, leaving only the residual REC expense to be recovered from SSO customers. The REC values will flow through the REC inventory and be charged to Account No. 557 (Other Power Supply Expense) which is used today for identified REC expense and is currently included in the FAC. The Company will recover the REC expense through the AER and, therefore, will no longer include this expense or account in the FAC. The REC expense recoverable by the AER is bypassable for those customers who switch to another supplier. The Company will make the quarterly filing of the AER in conjunction with the FAC, while it exists. After the FAC terminates, the Company will continue to acquire RECs to meet its renewable portfolio standards for its SSO load and will use the AER to recover the associated costs.

Q. IN THE COMPANY'S CORPORATE SEPARATION FILING, THE COMPANY IS PROPOSING TO LEAVE THE REPAS WITH OPCO AFTER CORPORATE SEPARATION. WILL THIS REDUCE THE AMOUNT OF ENERGY OR CAPACITY TO BE AUCTIONED?

A. No. The plan is for the Company to liquidate the energy and capacity in the PJM market. This sale of energy and capacity will offset fully the purchase of energy and capacity value of the REPA. Therefore, the full SSO load will be available to be auctioned. RECs which are a product separate from capacity and energy will not be sold as part of this transaction and will be available to the Company to meet its alternative energy requirements.

Q. HOW WILL THE REC EXPENSE BE DETERMINED WHEN PURCHASED AS PART OF A BUNDLED RENEWABLE PRODUCT (*I.E.*, REPA)?

A. To segregate the REC component of a REPA, the Company will allocate the purchase price into three components (energy, capacity, and REC value) using a residual method. The Company will use a monthly average PJM market price to value the energy component. Capacity will be valued using the price at which it can be sold into the PJM market. The remaining value would then be the cost of the REC. A simple (residual) example, using hypothetical values for unbundling a REPA of $70/ Mwh is outlined below.

Delivered Unit	Market Value $/Mwh
Energy	$35 (LMP)
Capacity	$12
REC	$23 (Remaining value)
Total	$70

Q. WOULD THE IMPLIED REC VALUE RESULTING FROM THE ABOVE DESCRIBED METHOD ALSO BE THE REC VALUE USED FOR THE PURPOSES OF CALCULATING THE 3% COST CAP?

A. Yes, for consistency the Company submits that the same implied REC value should be used for the cost cap calculation under rule 4901:1-40-07 O.A.C.

GENERATION RESOURCE RIDER (GRR)

Q. PLEASE DESCRIBE THE GRR RIDER BEING PROPOSED BY THE COMPANY IN THIS FILING.

A. AEP Ohio is proposing to establish a nonbypassable rider which will recover the cost of new generation resources, including renewable capacity that the Company owns or operates for the benefit of Ohio customers. This rider is nonbypassable and will be designed to recover renewable and alternative capacity additions, as well as more traditional capacity constructed or financed by the Company and approved by the Commission. The GRR will be used for recovery of the proposed Turning Point project, if approved by this Commission. It is not expected that there will be any additional projects included in the rider during the term of this ESP.

Q. IS THE COMPANY SEEKING APPROVAL OF THE PROPOSED NON-BYPASSABLE CHARGE ASSOCIATED WITH THE TURNING POINT PROJECT AS PART OF THIS CASE?

A. No. The Company will be seeking the Commission's approval of the non-bypassable charge for the life of the proposed Turning Point project in a separate proceeding after the Commission determines the need for the facility in Case Nos. 10-501-EL-FOR and 10-502-EL-FOR and establishes the GRR as requested in this proceeding. For now, the GRR would be a placeholder rider established at level of zero.

POOL TERMINATION PROVISION

Q. PLEASE DESCRIBE THE STATUS OF THE AEP POOL.

A. On December 17, 2010 AEP Ohio and other members of the AEP Pool provided written notice to each other of their mutual desire to terminate the existing agreement on three years notice in accordance with Article 13.2. The Interim Allowance Agreement (IAA) would be terminated concurrently with the AEP Pool. Shortly after the filing of this ESP, AEPSC on behalf of the operating companies that are members of the AEP Pool will make a filing with the FERC notifying it of the members' intention to terminate the AEP Pool on January 1, 2014. Concurrent with the AEP Pool termination AEP Ohio plans to implement its Corporate Separation plan. The requested Corporate Separation will be filed with this Commission in a separate proceeding as previously discussed. OPCO's current share of Amos unit 3 and both Mitchell units will subsequently be transferred to APCo and Kentucky Power upon receiving the necessary state and federal approvals.

Q. WHY IS THE TERMINATION OF THE AEP POOL AND IMPORTANT ISSUE FOR THE COMPANY?

A. A significant portion of AEP Ohio's total revenues come from sales of power to other Members of the AEP Pool. With the termination of the AEP Pool, the Company will need to find new or additional revenue to recover the costs of its generating assets, or reduce the cost of those assets. The Capacity payments received by AEP Ohio cannot be mitigated by opportunity sales in the market alone. The Company is therefore proposing an opportunity to make a subsequent application with this Commission, if needed to recover lost revenues as part of the move to competitive markets.

Q. IS THE COMPANY SEEKING COMPENSATION FOR THE LOSS OF AEP OHIO'S CAPACITY REVENUE AS A RESULT OF THE AEP POOL TERMINATION.

A. No, unless the Corporate Separation plan, including the plan for the Amos and Mitchell unit transfers, is not approved and implemented. The transfer of these units is one of the Companies principal methods of mitigating the financial harm to the Genco from the termination of the AEP Pool. If the transfer of these units occurs, less revenue is needed by the Genco, since it will no longer incur the expenses associated with these units. The megawatts associated with AEP Ohio's share of Amos 3 and the Mitchell units are equivalent to the amount of megawatts sold in the last two years to other members of the AEP Pool.

Q. HOW WOULD THE PROPOSED POOL TERMINATION PROVISION WORK?

A. If the Company's requested Corporate Separation plan is approved as filed, then this provision is not triggered and the Company agrees not to make any subsequent filing under this provision. If the Corporate Separation plan is denied or amended then the Company would be permitted to charge a nonbypassable rate to compensate it for any loss of earnings associated with the AEP Pool termination. That compensation would be determined in a subsequent filing made under this ESP. In general, the Company will compare the lost AEP Pool capacity revenue to increases in net revenue related to new wholesale transactions or decreases in generation asset costs that result from the

AEP Pool termination. If there is substantial decrease in net revenue then the Company may avail itself of this provision and seek recovery of the lost net revenue from retail customers.

Q. IF THE AEP POOL TERMINATION PROVISION IS INVOKED, WHAT PERIOD WILL THE COMPANY USE TO DETERMINE THE SUBSTANTIAL HARM TO THE COMPANY

A. The annual effect will be determined by comparing the actual AEP Pool capacity revenue in the most recent twelve-month period preceding the effective date of the change in the AEP Pool, to increases in net revenue related to new wholesale transaction or decreases in generation asset costs using that same twelve-month period.

Q. IS THE COMPANY PROPOSING A THRESHOLD AMOUNT UP TO WHICH IT WILL BEAR THE COST OF TERMINATING THE POOL AND NOT SEEK ANY RECOVERY FROM CUSTOMERS UNDER THIS PROVISION?

A. Yes. The Company will not adjust the proposed ESP rates if the annual effect of the AEP Pool termination or any new affiliate arrangement is less than $35 million on an annual basis during the term of this ESP.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes it does.

Corporate Structure Before and After Corp. Sep.

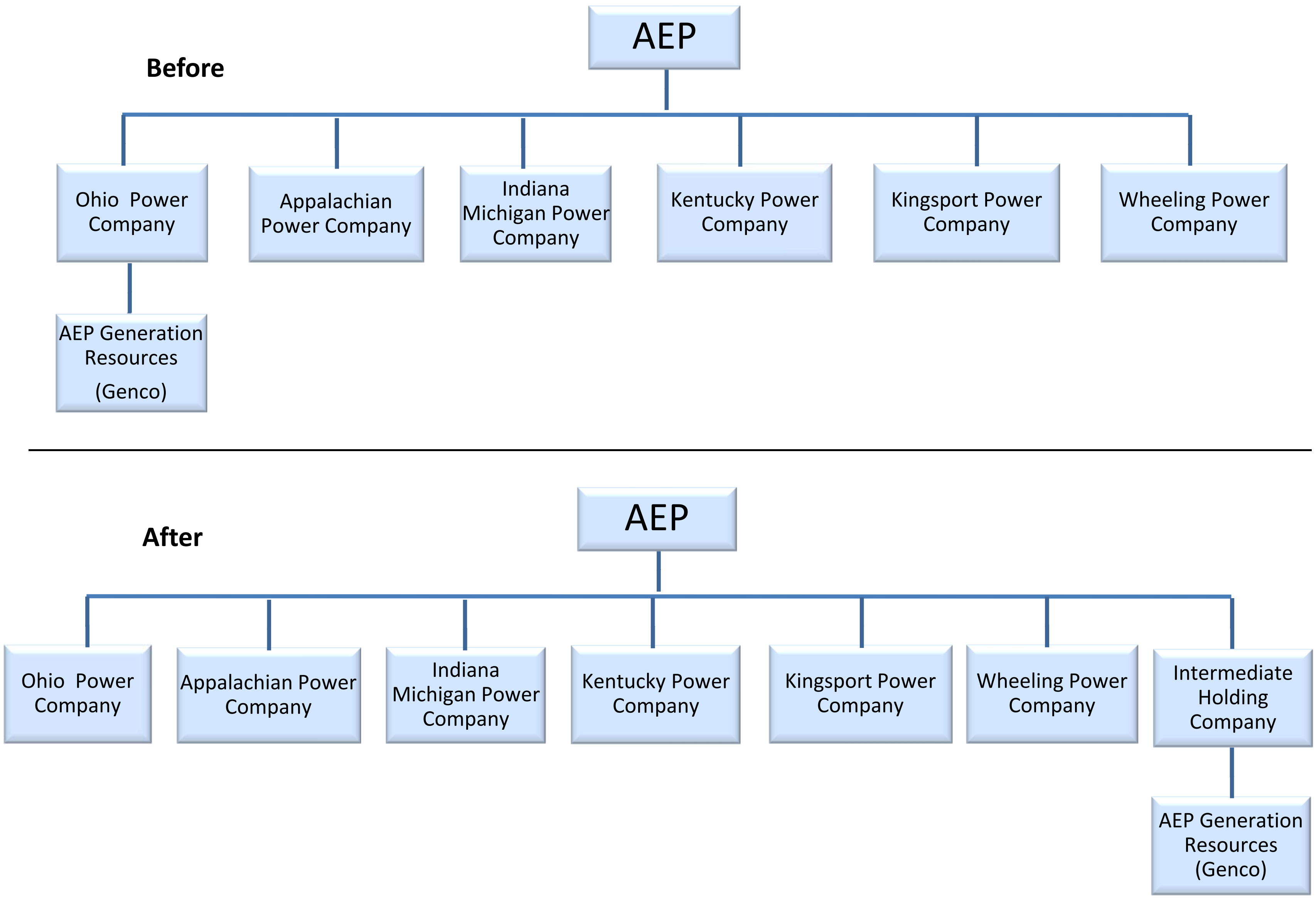


Exhibit PJN-1

AEP East Generating Unit Retirements

Estimated to be Retired by June 1, 2015

Plant	Location	Unit	MW AEP Ohio	MW Other AEP East Cos.
Conesville*	Conesville, OH	3	165	
Big Sandy	Louisa, KY	1		278
Clinch River	Cleveland, VA	3		235
Glen Lyn	Glen Lyn, VA	5,6		335
Kammer Plant	Moundsville, WV	1,2,3	630	
Kanawha River	Glasgow, WV	1,2		400
Muskingum River	Beverly, OH	1,2,3,4	840	
Beckjord**	New Richmond, OH	6	54	
Picway	Lockbourne, OH	5	100	
Philip Sporn	New Haven, WV	1,2,3,4	300	300
Tanners Creek	Lawrenceburg, IN	1,2,3		495
			2,089	2,043

*Expected retirement 12/31/2012
**Plant operated by Duke Power Company

UNIT RETIREMENTS AS A PERCENT OF FOSSIL CAPACITY

(**FOSSIL** excludes nuclear, hydro, pumped storage, wind, and solar.)

	Nominal Capability (MW)				
	APC	I&M	KPC	OPC**	Total
Total Generation* Before Transfers	6,567	3,397	1,471	15,151	26,586
Transfers*** Proposed in FERC Filing	2,115	-	312	(2,427)	-
Total Generation After Transfers	8,681	3,397	1,783	12,724	26,586
Upcoming Retirements****	(1,270)	(495)	(278)	(2,089)	(4,132)
Total Generation After Transfers	7,411	2,902	1,505	10,635	22,454
Retirement % Before Transfers	19%	15%	19%	14%	16%
Retirement % After Transfers	15%	15%	16%	16%	16%

*Includes CD2, CD3, Mone, OVEC and Lawrenceburg entitlements of approximately 3900 MW.

**AEP Generation Resources owns the generating assets post corporate separation

***A portion of the unit transfers (350 MW) is related to the transfer of Wheeling Power's load from OPC to APC

****Sporn 5 was retired February 13, 2012

Other Notes:

Current planning includes an FGD for Big Sandy unit 2 (KPC) in 2016 and an SCR and FGD for Rockport unit 1 (I&M and KPC) in 2016. BS2 is 800 MW and RPT1 is 1320 MW

Nominal capability is typically higher than summer capability

Average Monthly Sales & Purchases Of Capacity
Among Members Of the AEP Power Pool
For 2010 and 2011

Company	Member Actual Capacity kW	Member Required Capacity kW	Sales (Purchases) To/From Other Members Capacity kW
2010			
Appalachian Power	6,361,758	8,855,942	(2,494,183)
Kentucky Power	1,468,583	1,827,208	(358,625)
Indiana Michigan Power	5,429,917	5,071,625	358,292
AEP Ohio	13,338,750	10,844,233	2,494,517
Total	26,599,008	26,599,008	-
2011			
Appalachian Power	6,377,000	8,467,642	(2,090,642)
Kentucky Power	1,471,000	1,786,900	(315,900)
Indiana Michigan Power	5,428,000	5,173,583	254,417
AEP Ohio	13,176,333	11,024,208	2,152,125
Total	26,452,333	26,452,333	-

Exhibit PJN-3

INFORMATION PROVIDED PURSUANT TO OAC 4901:1-35-03(C)(9)(a)

General Fuel Requirements

The generating units of OPCo (AEP Ohio) and the other AEP System- East Zone operating companies, which are predominantly coal-fired, are managed to ensure adequate fuel supplies to meet normal burn requirements in both the short-term and the long-term. American Electric Power Service Corporation (AEPSC), acting as agent for AEP Ohio, is responsible for the procurement and delivery of fuel and chemicals used for environmental compliance (consumables) to AEP Ohio's generating stations. AEPSC's primary objective is to assure a continuous supply of quality fuel at the lowest cost reasonably possible. Deliveries are arranged so that sufficient fuel and consumables are available at all times. The quality of the delivered coal is fundamental to achieving and maintaining compliance with the applicable environmental limitations and operating efficiencies.

AEP Ohio passes any net gains on the sale of emission allowances through the FAC. AEP does not have a practice of re-selling coal contracts, however, if it did so it would pass any cost savings or profits related to Ohio generating resources through the FAC.

Coal and Gas Procurement Process

Coal delivery requirements are determined by taking into account existing coal inventory, forecasted coal consumption, and adjustments for contingencies that necessitate an increase or decrease in coal inventory levels. Sources of coal are determined by taking into account contractual obligations and existing sources of supply. AEP Ohio's total coal requirements are met using a portfolio of long-term arrangements and

INFORMATION PROVIDED PURSUANT TO OAC 4901:1-35-03(C)(9)(a)

spot-market purchases. Long-term contracts support a relatively stable and consistent supply of coal. Spot purchases are used to provide flexibility in scheduling contract deliveries, to accommodate changing demand, and to cover shortfalls in deliveries caused by force majeure and other unforeseeable or unexpected circumstances. Occasionally, spot purchases are also made to test-burn any promising and potential new long-term sources of fuel in order to determine their acceptability as a fuel source in a given power plant's generating units.

All long-term and most spot purchases of coal for AEP Ohio's plants are made based on the evaluation of competitive bids. Additional short-term purchases are made based on an evaluation of offers (both solicited and unsolicited) from suppliers compared to current published market prices as well as other offers for tonnage of acceptable quality. In all cases, the goal is securing the lowest reasonable delivered price on a cents-per-million-BTU basis.

AEP Ohio's day-to-day needs for natural gas are generally unpredictable and are generally purchased on a day-ahead and intra-day basis as needed for peaking requirements. Natural gas is competitively purchased and primarily obtained in the spot market with prices on a daily index or a daily fixed price. The Company has arranged for both firm and interruptible transportation service from various inter-state pipelines, which provide flexible supplies from multiple production areas.

<u>Inventory</u>

AEP Ohio attempts to maintain in storage at each plant an adequate coal and consumables supply to meet normal burn requirements. However, in situations where coal supplies fall

INFORMATION PROVIDED PURSUANT TO OAC 4901:1-35-03(C)(9)(a)

below prescribed minimum levels, the Company attempts to conserve coal supplies. In the event of a severe coal shortage, AEP Ohio and the AEP System-East Zone operating companies would implement procedures for the orderly reduction of the consumption of electricity, in accordance with the Emergency Operating Plan [is this affected by CS].

Generating Unit Information

The generating units that AEP Ohio owns are included in the table below. The table also lists major environmental equipment that has been added to the units: Flue Gas Desulfurization (FGD) for the control of SO_2 emissions, and Selective Catalytic Reduction (SCR) for the control of NO_X emissions. The costs associated with these generating units are included in the FAC as set out in the Company's testimony in its ESP filing.

INFORMATION PROVIDED PURSUANT TO OAC 4901:1-35-03(C)(9)(a)

AEP Ohio Owned Generating Units
(March 15, 2012)

Plant	Unit No.	Fuel	Location	SCR	FGD
Cardinal	1 (Note A)	Coal	Brilliant, OH	√	√
Conesville	3	Coal	Conesville, OH		
Conesville	4 (Note B)	Coal	Conesville, OH	√	√
Conesville	5	Coal	Conesville, OH		√
Conesville	6	Coal	Conesville, OH		√
Darby	1-6	Gas	Mount Sterling, OH		
Gen. J.M. Gavin	1	Coal	Cheshire, OH	√	√
Gen. J.M. Gavin	2	Coal	Cheshire, OH	√	√
J.M. Stuart	1 (Note B)	Coal	Aberdeen, OH	√	√
J.M. Stuart	2 (Note B)	Coal	Aberdeen, OH	√	√
J.M. Stuart	3 (Note B)	Coal	Aberdeen, OH	√	√
J.M. Stuart	4 (Note B)	Coal	Aberdeen, OH	√	√
John E. Amos	3 (Note C)	Coal	Winfield, WV	√	√
Kammer	1	Coal	Moundsville, WV		
Kammer	2	Coal	Moundsville, WV		
Kammer	3	Coal	Moundsville, WV		
Mitchell	1	Coal	Moundsville, WV	√	√
Mitchell	2	Coal	Moundsville, WV	√	√
Muskingum River	1	Coal	Waterford, OH		
Muskingum River	2	Coal	Waterford, OH		
Muskingum River	3	Coal	Waterford, OH		
Muskingum River	4	Coal	Waterford, OH		
Muskingum River	5	Coal	Waterford, OH	√	
Philip Sporn	2	Coal	New Haven, WV		
Philip Sporn	4	Coal	New Haven, WV		
Picway	5	Coal	Lockbourne, OH		
Racine	1-2	Hydro	Racine, OH		
W.C. Beckjord	6 (Note B)	Coal	New Richmond, OH		
Waterford	1-4	Gas	Waterford, OH	√	
William H. Zimmer	1 (Note B)	Coal	Moscow, OH	√	√

Note A The Cardinal Plant consists of three coal-fired steam units, with Unit No. 1 owned by Ohio Power and Unit Nos. 2 and 3 owned by Buckeye Power, Inc. (“Buckeye”).

Note B Ohio Power jointly owns several units with Duke Energy Ohio, LLC and Dayton Power and Light Co. The jointly-owned units are Conesville 4, Stuart 1-4, Beckjord 6 and Zimmer 1. Stuart Diesel units 1-4, which are not listed above, will also transfer to AEP Generation Resources.

Note C Ohio Power owns two-thirds and APCo owns one-third of Amos Unit No. 3.

Note: Ohio Power also has certain contractual entitlements to purchase power, which will transfer to AEP Generation Resources.

INFORMATION PROVIDED PURSUANT TO OAC 4901:1-35-03(C)(9)(a)

Purchased Power

AEP Ohio makes power purchases from affiliates, non-affiliated companies and through the PJM market that will be included in the Companies' proposed FAC. AEP Ohio has contracts to purchase power from OVEC and Buckeye Power generating units, and from its affiliate, American Electric Generating Company's (AEG) Lawrenceburg plant.

AEP Power Pool and PJM

The FAC reflects the AEP Ohio generating resources being operated under the AEP Interconnection Agreement until its expected termination. AEP is a member of PJM and operates its fleet, including AEP Ohio's generating resources, in accordance with PJM protocols.

Economic Dispatch

AEP, along with other generators in PJM, "offer(s)" available generating units into the PJM market on a daily basis. PJM performs an economic dispatch for the PJM footprint to meet the load requirements with all available generation. After the end of the month AEP reconstructs, for cost allocation purposes, the economic dispatch for its units based on hourly generating unit output. This reconstruction assigns the resources used for Off-System Sales for each hour of the month. The resources at the top of the stack, i.e., those with higher variable costs, are assigned to Off-System Sales resulting in lower costs assigned to internal load customers.

INFORMATION PROVIDED PURSUANT TO OAC 4901:1-35-03(C)(9)(a)

Corporate Separation

The Company's current ESP term covers a period that includes AEP Ohio operating as a bundled utility, with its own generation resources, and as a member of the AEP Pool. The ESP term also encompasses the period after the termination of the AEP Pool and the Corporate Separation of non-T&D assets and liabilities from AEP Ohio. The forgoing primarily describes the operation of AEP Ohio as a bundled utility.

Some of the major changes to the previous narrative are discussed below. The generation assets listed in the table for existing generation will no longer be owned or operated by AEP Ohio. There will not be any AEP Pool transactions that affect the FAC after termination of the AEP Pool. There will be a purchased power contract with AEP Generation Resources Inc. (Genco) to supply the SSO load requirements of AEP Ohio after Corporate Separation and prior to the auction of that load. Once suppliers begin serving AEP Ohio's retail SSO load as a result of the auction, the purchased power contract with the Genco ends and purchased power contracts between AEP Ohio and the winning wholesale auction bidders begin. More detail of these transactions is contained in the Corporate Separation filing to be made with this Commission and the upcoming filings to be made with the Federal Energy Regulatory Commission.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Ohio Power Company's Direct Testimony of Philip J. Nelson has been served upon the below-named counsel and Attorney Examiners by electronic mail to all Parties this 30th day of March, 2012.

/s/ Steven T. Nourse

greta.see@puc.state.oh.us,
jeff.jones@puc.state.oh.us,
Daniel.Shields@puc.state.oh.us,
Tammy.Turkenton@puc.state.oh.us,
Jonathan.Tauber@puc.state.oh.us,
Jodi.Bair@puc.state.oh.us,
Bob.Fortney@puc.state.oh.us,
Doris.McCarter@puc.state.oh.us,
Greg.Price@puc.state.oh.us,
Stephen.Reilly@puc.state.oh.us,
Werner.Margard@puc.state.oh.us,
William.Wright@puc.state.oh.us,
Thomas.Lindgren@puc.state.oh.us,
john.jones@puc.state.oh.us,
dclark1@aep.com,
grady@occ.state.oh.us,
keith.nusbaum@snrdenton.com,
kpkreider@kmklaw.com,
mjsatterwhite@aep.com,
ned.ford@fuse.net,
pfox@hilliardohio.gov,
ricks@ohanet.org,
stnourse@aep.com,
cathy@theoec.org,
dsullivan@nrdc.org,
aehaedt@jonesday.com,
dakutik@jonesday.com,
haydenm@firstenergycorp.com,
dconway@porterwright.com,
jlang@calfee.com,
lmcbride@calfee.com,
talexander@calfee.com,
etter@occ.state.oh.us,
grady@occ.state.oh.us,
small@occ.state.oh.us,
cynthia.a.fonner@constellation.com,
David.fein@constellation.com,
Dorothy.corbett@duke-energy.com,
Amy.spiller@duke-energy.com,
dboehm@bkllawfirm.com,
mkurtz@bkllawfirm.com,
ricks@ohanet.org,
tobrien@bricker.com,
jbentine@cwslaw.com,
myurick@cwslaw.com,
zkravitz@cwslaw.com,
jejadwin@aep.com,
msmalz@ohiopovertylaw.org,
jmaskovyak@ohiopovertylaw.org,
todonnell@bricker.com,
cmontgomery@bricker.com,
lmcalister@bricker.com,
mwarnock@bricker.com,
gthomas@gtpowergroup.com,
wmassey@cov.com,
henryeckhart@aol.com,
laurac@chappelleconsulting.net,
whitt@whitt-sturtevant.com,
thompson@whitt-sturtevant.com,
sandy.grace@exeloncorp.com,
cmiller@szd.com,
ahaque@szd.com,
gdunn@szd.com,
mhpetricoff@vorys.com,
smhoward@vorys.com,
mjsettineri@vorys.com,
lkalepsclark@vorys.com,
bakahn@vorys.com,
Gary.A.Jeffries@dom.com,

Stephen.chriss@wal-mart.com,
dmeyer@kmklaw.com,
holly@raysmithlaw.com,
barthroyer@aol.com,
philip.sineneng@thompsonhine.com,
carolyn.flahive@thompsonhine.com,
terrance.mebane@thompsonhine.com,
cmooney2 @columbus.rr.com,
drinebolt@ohiopartners.org,
trent@theoeg.com,
nolan@theoec.org,
gpoulos@enernoc.com,
emma.hand@snrdenton.com,
doug.bonner@snrdenton.com,
clinton.vince@snrdenton.com,
sam@mwncmh.com,
joliker@mwncmh.com,
fdarr@mwncmh.com,
jestes@skadden.com,
paul.wight@skadden.com,
dstahl@eimerstahl.com,
aaragona@eimerstahl.com,
ssolberg@eimerstahl.com,
tsantarelli@elpc.org,
callwein@wamenergylaw.com,
malina@wexlerwalker.com,
jkooper@hess.com,
kguerry@hess.com,
afreifeld@viridityenergy.com,
swolfe@viridityenergy.com,
korenergy@insight.rr.com,
sasloan@aep.com,
Dane.Stinson@baileycavalieri.com,
cendsley@ofbf.org