

**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	)	Case No. 11-346-EL-SSO
Pursuant to §4928.143, Ohio Rev. Code, in the Form	)	Case No. 11-348-EL-SSO
of an Electric Security Plan.	)	
In the Matter of the Application of Columbus	)	
Southern Power Company and Ohio Power Company	)	Case No. 11-349-EL-AAM
for Approval of Certain Accounting Authority.	)	Case No. 11-350-EL-AAM

**DIRECT TESTIMONY OF**

**R. Reed Fraley**

**on behalf of**

**Ohio Hospital Association**

**May 4, 2012**

1 **BACKGROUND, EXPERIENCE AND PURPOSE**

2  
3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4  
5 **A.** My Name is R. Reed Fraley. My business address is 150 East Broad Street, 15<sup>th</sup>  
6 Floor, Columbus Ohio, 43215.  
7

8 **1. Q. BY WHOM ARE YOU EMPLOYED?**

9  
10 **A.** I am employed by the Ohio Hospital Association, a not-for-profit healthcare  
11 organization. As we explained in our Motion to Intervene in this case, the OHA is  
12 a private nonprofit trade association established in 1915 as the first state-level  
13 hospital association in the United States and is the only Ohio trade association  
14 representing hospitals with 168 private, state and federal government hospitals  
15 and more than 18 health systems. The approximately 50 hospitals receiving  
16 electricity from AEP Ohio are OHA members and consume significant amounts of  
17 electrical energy, relying on their host electric distribution utilities of the AEP  
18 Companies to deliver the electric power necessary to provide patient care.  
19

20 **2. Q. WHAT IS YOUR POSITION WITH THE OHIO HOSPITAL**  
21 **ASSOCIATION?**

22  
23 **A.** My title is Senior Vice-President.  
24

25 **3. Q. HOW LONG HAVE YOU HELD THIS POSITION?**

26  
27 **A.** I have held this position for seven plus years.  
28

29 **4. Q. WHAT IS THE NATURE OF YOUR DUTIES WITH THE OHA?**

30  
31 **A.** I am responsible for OHA's relationships with the various health systems and  
32 hospitals throughout Ohio and develop programming for hospital trustees. This  
33 responsibility includes coordinating the CEO visitation program, and being the  
34 principle liaison with many of the systems as well as several smaller hospitals.  
35

36 Prior to joining the OHA staff, I served as CEO of the Ohio State University  
37 Health System and vice president for health services for 14 years, as CEO of  
38 Presbyterian Hospital of Dallas (Texas).for 6 years, and as COO of Medical  
39 College of Virginia Hospitals for 5 years. In each of these roles, I was the officer  
40 principally responsible for the day to day operations necessary to support the care  
41 of patients.  
42

1   **5.   Q.   PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

2  
3       **A.**    I have a bachelor's degree in engineering from the United States Military  
4              Academy (West Point) and a master's degree in health administration from The  
5              Ohio State University.

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

8  
9       **A.**    The purpose of this testimony is to explain to the Commission how hospitals and  
10             their vital community functions can be impacted by AEP Ohio's modified electric  
11             security plan.

12  
13  **7.   Q.   WHAT ASPECT OF AEP'S FILING CONCERNS YOU IN PARTICULAR?**

14  
15       **A.**    It appears that certain rate classifications in the Ohio Power service territory will  
16             see increases over the life of the plan that will create noticeable hardships for the  
17             hospitals that Ohio Power serves.

18  
19  **8.   Q.   PLEASE EXPLAIN YOUR CONCERN.**

20  
21       **A.**    The basis of my concern is found in DMR-1, attached to the Direct Testimony of  
22             David Roush in support of AEP Ohio's Modified Electric Security Plan, wherein  
23             he summarizes the proposed rate increases by rate classification. Our members  
24             are predominantly served under the GS-2 and GS-3 classifications. Based upon  
25             DMR-1, our members in the Ohio Power territory could see increases in their  
26             electric bills of between 10.5 to 11% through December of 2014.

27  **9.   Q.   WHY DOES THIS SEEMINGLY MODEST INCREASE OVER TIME**  
28       **CAUSE YOU CONCERN?**

29  
30       **A.**    In my prior testimony in this case, I explained at a very high level the importance  
31             of reliable electric service to the delivery of health care services. While health  
32             care technology continues to improve, this improvement often comes with an  
33             increased reliance on electricity in terms of both quality and quantity. Technology  
34             adds additional electric demand to hospital operations, both directly and  
35             indirectly, and at the same time this technology tends to demand a very high level  
36             of power quality. At the same time that hospital operations are becoming  
37             increasingly power-dependent, hospital income is flat or declining. Any increase  
38             in hospital operating expense must displace some other expenditure. Hospitals are  
39             operating in an environment of incredible uncertainty. The reasonable expectation  
40             for the foreseeable future is that increasing expenses will outstrip possible revenue  
41             enhancements. Yet the expectation for continued improvement in patient care  
42             outcomes will remain unchanged.

43  
44  **10.  Q.   PLEASE EXPLAIN WHAT YOU MEAN BY YOUR LAST STATEMENT.**

1 A. The current situation faced by nearly all hospitals is that, at best, their revenue  
2 streams will remain static for the foreseeable future. But this is the best-case  
3 scenario. To the extent that a hospital is dependent upon Medicare or Medicaid  
4 reimbursements for their operating revenues, which, by the way, tends to be  
5 hospitals in predominantly rural areas, then those facilities can reasonably expect  
6 revenues to decrease over the next 36 months, based upon current federal law.  
7 States like Ohio certainly do not have the means to increase their share of the  
8 burden for these programs, so the reasonable expectation is that payments will  
9 decrease for the same level of service.

10  
11 The consequence of this financial situation is that when a hospital's costs  
12 increase, that increase must be paid for by a corresponding decrease in other  
13 expenditures. While this is simply a cold economic fact not peculiar to hospitals,  
14 the Commission should understand that the health care industry has been in this  
15 situation for several years now and consequently, the "easy" reductions in  
16 operating expenses have largely already been made. Hospital administrators are  
17 now having to decide what cuts to make in the delivery of health care services to  
18 their communities. The hard math looks like this to an administrator: Every cost  
19 increase reduces the capital budget for a new piece of therapeutic equipment used  
20 to deliver health care services by a like amount. Or in the most extreme case, a  
21 \$75,000 cost increase equals one registered nurse who is no longer available to  
22 care for patients.

23  
24 A concrete example of this decision-making process is the reduction in maternity  
25 wards around the state. In 2004, there were 127 licensed maternity services  
26 licensed by the Ohio Department of Health. Today, that number stands at 114.  
27 The type of rate increase proposed by AEP Ohio could contribute to accelerating  
28 these kinds of difficult patient care decisions.

29  
30 The point I want to leave the Commission with through my testimony is that given  
31 the current financial realities faced by hospitals, the consequences of the  
32 increasing costs of that electric service is going to be felt by decreases in the level  
33 or scope of services that hospitals are able to deliver to the citizens of Ohio.

34  
35 On behalf of the hospitals of Ohio, I am asking the Commission's help in enabling  
36 us to continue to provide quality care to the patient.

37  
38 **11. Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

39  
40 **A.** Yes it does.

## **CERTIFICATE OF SERVICE**

The undersigned hereby certifies that the foregoing DIRECT TESTIMONY R. REED

FRALEY was served via electronic mail upon the following, this 4<sup>th</sup> day of May 2012.



Thomas J. O'Brien

[Stephen.Reilly@puc.state.oh.us](mailto:Stephen.Reilly@puc.state.oh.us)  
[Werner.Margard@puc.state.oh.us](mailto:Werner.Margard@puc.state.oh.us)  
[William.Wright@puc.state.oh.us](mailto:William.Wright@puc.state.oh.us)  
[Thomas.Lindgren@puc.state.oh.us](mailto:Thomas.Lindgren@puc.state.oh.us)  
[john.jones@puc.state.oh.us](mailto:john.jones@puc.state.oh.us)  
[dclark1@aep.com](mailto:dclark1@aep.com),  
[keith.nusbaum@snrdenton.com](mailto:keith.nusbaum@snrdenton.com)  
[kpkreider@kmklaw.com](mailto:kpkreider@kmklaw.com)  
[mjsatterwhite@aep.com](mailto:mjsatterwhite@aep.com)  
[ned.ford@fuse.net](mailto:ned.ford@fuse.net)  
[pfox@hilliardohio.gov](mailto:pfox@hilliardohio.gov)  
[stnourse@aep.com](mailto:stnourse@aep.com)  
[cathy@theoec.org](mailto:cathy@theoec.org),  
[dsullivan@nrdc.org](mailto:dsullivan@nrdc.org)  
[aehaedt@jonesday.com](mailto:aehaedt@jonesday.com)  
[dakutik@jonesday.com](mailto:dakutik@jonesday.com)  
[haydenm@firstenergycorp.com](mailto:haydenm@firstenergycorp.com)  
[dconway@porterwright.com](mailto:dconway@porterwright.com)  
[jiang@calfee.com](mailto:jiang@calfee.com)  
[lmcbride@calfee.com](mailto:lmcbride@calfee.com)  
[tallexander@calfee.com](mailto:tallexander@calfee.com)  
[etter@occ.state.oh.us](mailto:etter@occ.state.oh.us)  
[grady@occ.state.oh.us](mailto:grady@occ.state.oh.us)  
[small@occ.state.oh.us](mailto:small@occ.state.oh.us)  
[cynthia.a.fonner@constellation.com](mailto:cynthia.a.fonner@constellation.com)  
[zkavitz@cwslaw.com](mailto:zkavitz@cwslaw.com),  
[jejadwin@aep.com](mailto:jejadwin@aep.com)  
[msmalz@ohiopoverlylaw.org](mailto:msmalz@ohiopoverlylaw.org)  
[jmaskovyak@ohiopoverlylaw.org](mailto:jmaskovyak@ohiopoverlylaw.org)  
[David.fein@constellation.com](mailto:David.fein@constellation.com)  
[Dorothy.corbett@duke-energy.com](mailto:Dorothy.corbett@duke-energy.com)

[Amy.spiller@duke-energy.com](mailto:Amy.spiller@duke-energy.com)  
[dboehm@bkllawfirm.com](mailto:dboehm@bkllawfirm.com)  
[mkurtz@bkllawfirm.com](mailto:mkurtz@bkllawfirm.com)  
[ricks@ohanet.org](mailto:ricks@ohanet.org)  
[jbentine@cwslaw.com](mailto:jbentine@cwslaw.com)  
[todonnell@bricker.com](mailto:todonnell@bricker.com)  
[cmontgomery@bricker.com](mailto:cmontgomery@bricker.com)  
[lmcalister@bricker.com](mailto:lmcalister@bricker.com)  
[mwarnock@bricker.com](mailto:mwarnock@bricker.com)  
[gthomas@gtpowergroup.com](mailto:gthomas@gtpowergroup.com)  
[wmassey@cov.com](mailto:wmassey@cov.com)  
[henryeckhart@aol.com](mailto:henryeckhart@aol.com)  
[laurac@chappelleconsulting.net](mailto:laurac@chappelleconsulting.net)  
[whitt@whitt-sturtevant.com](mailto:whitt@whitt-sturtevant.com)  
[thompson@whitt-sturtevant.com](mailto:thompson@whitt-sturtevant.com)  
[sandy.grace@exeloncorp.com](mailto:sandy.grace@exeloncorp.com)  
[cmiller@szd.com](mailto:cmiller@szd.com)  
[ahaque@szd.com](mailto:ahaque@szd.com)  
[gdunn@szd.com](mailto:gdunn@szd.com)  
[mhpetricoff@vorys.com](mailto:mhpetricoff@vorys.com)  
[smhoward@vorys.com](mailto:smhoward@vorys.com)  
[mjsettineri@vorys.com](mailto:mjsettineri@vorys.com)  
[lkalepsclark@vorys.com](mailto:lkalepsclark@vorys.com)  
[bakahn@vorys.com](mailto:bakahn@vorys.com)  
[Gary.A.Jeffries@dom.com](mailto:Gary.A.Jeffries@dom.com)  
[Stephen.chriss@wal-mart.com](mailto:Stephen.chriss@wal-mart.com)  
[dmeyer@kmklaw.com](mailto:dmeyer@kmklaw.com)  
[holly@raysmithlaw.com](mailto:holly@raysmithlaw.com)  
[barthroyer@aol.com](mailto:barthroyer@aol.com)  
[philip.sineneng@thompsonhine.com](mailto:philip.sineneng@thompsonhine.com)  
[carolyn.flahive@thompsonhine.com](mailto:carolyn.flahive@thompsonhine.com)  
[terrance.mebane@thompsonhine.com](mailto:terrance.mebane@thompsonhine.com)

[cmooney2@columbus.rr.com](mailto:cmooney2@columbus.rr.com)  
[drinebolt@ohiopartners.org](mailto:drinebolt@ohiopartners.org)  
[trent@theoec.org](mailto:trent@theoec.org),  
[nolan@theoec.org](mailto:nolan@theoec.org)  
[gpoulos@enernoc.com](mailto:gpoulos@enernoc.com)  
[emma.hand@snrdenton.com](mailto:emma.hand@snrdenton.com)  
[doug.bonner@snrdenton.com](mailto:doug.bonner@snrdenton.com)  
[clinton.vince@snrdenton.com](mailto:clinton.vince@snrdenton.com)  
[sam@mwncmh.com](mailto:sam@mwncmh.com)  
[joliker@mwncmh.com](mailto:joliker@mwncmh.com)  
[fdarr@mwncmh.com](mailto:fdarr@mwncmh.com)  
[jestes@skadden.com](mailto:jestes@skadden.com)  
[paul.wight@skadden.com](mailto:paul.wight@skadden.com)  
[dstahl@eimerstahl.com](mailto:dstahl@eimerstahl.com)  
[aaragona@eimerstahl.com](mailto:aaragona@eimerstahl.com)  
[ssolberg@eimerstahl.com](mailto:ssolberg@eimerstahl.com)  
[tsantarelli@elpc.org](mailto:tsantarelli@elpc.org)  
[callwein@wamenergylaw.com](mailto:callwein@wamenergylaw.com)  
[malina@wexlerwalker.com](mailto:malina@wexlerwalker.com)  
[jkooper@hess.com](mailto:jkooper@hess.com)  
[kguerry@hess.com](mailto:kguerry@hess.com)  
[afreifeld@viridityenergy.com](mailto:afreifeld@viridityenergy.com)  
[swolfe@viridityenergy.com](mailto:swolfe@viridityenergy.com)  
[korenergy@insight.rr.com](mailto:korenergy@insight.rr.com)  
[sasloan@aep.com](mailto:sasloan@aep.com)  
[Dane.Stinson@baileycavalieri.com](mailto:Dane.Stinson@baileycavalieri.com)  
[cendsley@ofbf.org](mailto:cendsley@ofbf.org)  
[bpbarger@bcslawyers.com](mailto:bpbarger@bcslawyers.com)  
[OhioESP2@aep.com](mailto:OhioESP2@aep.com)  
[kaelber@buckleyking.com](mailto:kaelber@buckleyking.com)  
[walter@buckley.com](mailto:walter@buckley.com)

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**5/4/2012 4:04:08 PM**

**in**

**Case No(s). 11-0346-EL-SSO, 11-0348-EL-SSO, 11-0349-EL-AAM, 11-0350-EL-AAM**

Summary: Testimony of R. Reed Fraley on behalf of Ohio Hospital Association electronically filed by Teresa Orahod on behalf of Ohio Hospital Association