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

TESTIMONY
OF
BETH E. HIXON

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

May 4, 2012

TABLE OF CONTENTS

ATTACHMENTS

SCHEDULES

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.

A1. My name is Beth Hixon. My business address is 10 West Broad Street, Suite 1800, Columbus, Ohio 43215-3485. I am employed by the Office of the Ohio Consumers' Counsel ("OCC") as the Assistant Director of Analytical Services.

Q2. WOULD YOU PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A2. I received a Bachelor of Business Administration degree in accounting from Ohio University in June 1980. For the period June 1980 through April 1982, I was employed as an Examiner in the Field Audits Unit of the Ohio Rehabilitation Services Commission ("ORSC"). In this position, I performed compliance audits of ORSC grants to, and contracts with, various service agencies in Ohio.

In May 1982, I was employed in the position of Researcher by the OCC. In 1984, I was promoted to Utility Rate Analyst Supervisor and held that position until November 1987 when I joined the regulatory consulting firm of Berkshire Consulting Services. In April 1998, I returned to the OCC and have subsequently held positions as Senior Regulatory Analyst, Principal Regulatory Analyst, and Assistant Director of Analytical Services.

Q3. WHAT EXPERIENCE DO YOU HAVE IN THE AREA OF UTILITY REGULATION?

A3. In my positions with the OCC, and as a consultant with Berkshire Consulting Services, I have performed analysis and research in numerous cases involving utilities' base rates, fuel and gas rates and other regulatory issues. I have worked with attorneys, analytical staff, and consultants in preparing for, and litigating, utility proceedings involving Ohio's electric companies, the major gas companies, and several telephone and water utilities. At the OCC, I also chair the OCC's cross-functional internal electric team, participate in and/or direct special regulatory projects regarding energy issues, and provide training on regulatory technical issues.

Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE REGULATORY COMMISSIONS?

A4. Yes. I have submitted testimony before the Public Utilities Commission of Ohio ("PUCO" or "Commission") in the cases listed in Attachment BEH-1. As shown on this Attachment, I have also submitted testimony in a case before the Indiana Utility Regulatory Commission.

Q5. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF YOUR TESTIMONY?

A5. In preparing my testimony for this proceeding I reviewed documents such as the Modified Electric Security Plan ("Modified ESP") Application filed on March 30,

2012 ("Modified Application") by the Ohio Power Company[1] ("AEP Ohio" or "the Company"), portions of the testimonies of AEP Ohio witnesses filed on March 30, 2012 in support of the Modified ESP, and certain responses by AEP Ohio to parties' discovery.

II. PURPOSE OF TESTIMONY

Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A6. The purpose of my testimony is to present a comparison between the results of AEP Ohio's Modified ESP and the results that would be expected under a Market Rate Offer ("MRO"), which has been referred to by the Commission as the "statutory test."[2] It is my understanding that under Section 4928.143(C)(1) of the Ohio Revised Code, the Commission may approve or modify and approve an ESP if it finds that the ESP "including its pricing and all other terms and conditions, including any deferrals and future recovery of deferrals, is more favorable in the aggregate as compared to the expected results that would otherwise apply under section 4928.142 of the Revised Code." Section 4928.142 of the Revised Code pertains to a Standard Service Offer ("SSO") under an MRO.

[1] On December 31, 2011 Columbus Southern Power Company merged with Ohio Power Company with Ohio Power Company the surviving entity. Modified Application at 1.

[2] *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 Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 11-346-EL-SSO, Opinion and Order (Dec. 14, 2011) at 27.

My comparison of the Modified ESP results to the expected results of an MRO provides a review of the (1) SSO price for generation, (2) other Modified ESP rates and (3) non-quantifiable elements of the Modified ESP. Based on these comparisons, I conclude that the Modified ESP produces results that are less favorable in the aggregate than the expected MRO results because, as shown on Schedule BEH-1:

- If AEP Ohio's assumption of a $355.72/MW-day capacity charge is accepted, the Modified ESP SSO prices for generation over the term of the ESP result in an $86.6 million benefit. (Schedule BEH-2a) However, I recommend that the capacity charge levels approved by the Commission in Case No. 10-2929-EL-UNC be used for this comparison. I present the magnitude of the impact the capacity charge levels have on the SSO price comparison, by providing an SSO price comparison using a $145.79/MW-day capacity charge. This comparison shows that the Modified ESP results in $50.0 million additional costs to customers. (Schedule BEH-2b)
- Other Modified ESP rates result in additional costs to customers of $638.9 million.
- Not-readily-quantifiable benefits claimed by AEP Ohio will result in additional costs to customers that are either not readily quantifiable or unknown.
- Additional unknown costs to customers will result from certain provisions of the Modified ESP.

Based on this comparison, I recommend the Commission not approve the Modified ESP because it fails to meet the statutory test.

III. STATUTORY TEST (ESP vs. MRO)

A. SSO Price Comparison

Q7. WHAT ARE THE RATE COMPONENTS USED TO DETERMINE THE RESULTING SSO GENERATION PRICE CUSTOMERS WOULD PAY UNDER THE MODIFIED ESP?

A7. AEP Ohio proposes that customers would pay the following rates during the ESP period for SSO generation service, until such time as SSO rates are established through a competitive bidding process:

- Non-fuel generation charges consisting of base generation rates bundled with the Environmental Investment Carrying Charge Rider ("EICCR"), both at current levels.[3]
- A Fuel Adjustment Clause ("FAC") that would continue to change on a quarterly basis to recover actual fuel costs.[4]

In addition to these two generation rates, AEP Ohio witness Roush identified certain generation costs included in AEP Ohio's Transmission Cost Recovery

[3] AEP Ohio Witness David M. Roush Direct Testimony (March 30, 2012) at 11.

[4] AEP Ohio Witness Thomas E. Mitchell Direct Testimony (March 30, 2012) at 6.

Rider ("TCRR") that need to be recognized in order to make the Modified ESP results comparable to prices under an MRO. Mr. Roush refers to his resulting SSO generation rates under the Modified ESP as "Market Comparable Generation Prices" in Exhibit DMR-2 as "Proposed." He provided these prices to Ms. Thomas for use in Exhibit LJT-1 as the "Proposed ESP Price," and I have used the same Modified ESP SSO generation prices on my Schedule BEH-2.

Q8. WHAT ARE THE RATE COMPONENTS USED TO DETERMINE THE RESULTING SSO GENERATION PRICE CUSTOMERS WOULD PAY UNDER AN MRO?

A8. It is my understanding that if AEP Ohio were to seek approval of an SSO generation price determined through an MRO, it would be subject to the blending provision contained in Section 4928.142(D), Revised Code. Under this requirement an MRO SSO generation price would be a proportionate blend of (1) the "most recent standard service offer price adjusted for costs of fuel, purchased power, supply and demand portfolio requirements and compliance with environmental laws and regulations and (2) a competitively bid price." It is also

my understanding that based on this law, the blending percentages of the two prices are[5]:

Year	Competitively Bid Price	Most recent SSO Price, adjusted
1	10%	90%
2	20%	80%
3	30%	70%
4	40%	60%
5	50%	50%

Q9. FOR THE PURPOSES OF DETERMINING THE BLENDED MRO SSO GENERATION PRICE, WHAT ARE THE RATE COMPONENTS USED FOR THE MOST RECENT SSO GENERATION PRICE?

A9. The most recent standard service offer for AEP Ohio would be its current rates for base generation, the FAC, the EICCR and the generation components contained in the TCRR. Mr. Roush refers to these most recent SSO generation prices as "Market Comparable Generation Prices" in Exhibit DMR-2 as "Current." He provided these prices to Ms. Thomas for use in Exhibit LJT-1 as the "Generation Service Price" that is blended with the bid price. I have used these same most recent SSO generation prices on my Schedule BEH-2 to blend with the bid price.

[5] These blending percentages are also subject to the prospective alterations which the Commission may make under Section 4928.142(E), Revised Code.

Q10. IN MS. THOMAS' PRICE TEST SHE CONCLUDES THAT THE MODIFIED ESP PRICE AND THE MRO PRICE ARE THE SAME FOR THE FIVE MONTHS WHEN 100% OF THE SSO LOAD IS COMPETITIVELY BID. DO YOU AGREE?

A10. No. The Modified ESP SSO generation price beginning in January 2015 would not be the most recent SSO generation for blending as required by Section 4928.142(D), Revised Code. It is my understanding that under the Modified ESP, AEP Ohio does propose that 100% of SSO be competitively bid for the five-month period January through May 2015. However, what would occur under the Modified ESP reflects the SSO generation price of that proposal, but does not reflect what the most recent SSO generation price would be for blending under an MRO. Under an MRO, there would be no Modified ESP. Therefore, the most recent SSO generation price to be blended beginning January 2015 is Mr. Roush's generation price of $62.08, as I have reflected on Schedule BEH-2.

Ms. Thomas justifies her approach based on her reading of the Commission's Order in the FirstEnergy ESP case, Case No. 10-388-EL-SSO. I believe that Ms. Thomas' reliance on the Commission's statement in FirstEnergy's ESP case is misdirected. The Commission's statement acknowledges that a proposed ESP price with a 100% of load competitively bid would be equal to an MRO price for FirstEnergy – because FirstEnergy would not be subject to the blending provisions of the law. For FirstEnergy, the MRO SSO generation price would always be a 100% bid price. However, for AEP Ohio, in year three, the MRO

SSO generation would be a 30% bid price blended with a 70% most recent SSO generation price. The Modified ESP SSO generation price beginning in January 2015 is not the most recent SSO generation price that is required by Section 4928.142(D), Revised Code.

Q11. WHAT IS THE BID PRICE AEP OHIO USED FOR THE PURPOSES OF DETERMINING THE BLENDED MRO SSO GENERATION PRICE?

A11. Ms. Thomas used competitive benchmark prices that she based on market data for items she expected would be in a bid price from a generation supplier and which would "recognize the Company's FRR obligation during the ESP period."[6] In order to "recognize the Company's FRR obligation" Ms. Thomas assumed that, over the term of the Modified ESP, the capacity component in the bid price would be the $355.72/MW-Day "full capacity cost rate" that AEP Ohio is requesting in Case No. 10-2929-EL-UNC ("Capacity Charge Case"). An assumption of a $355.72/MW-Day capacity component reflects the belief that $355.72/MW-Day will be the capacity charge for suppliers providing generation under a competitive bid.

[6] AEP Witness Laura J.Thomas Direct Testimony (March 30, 2012) at 10. FRR refers to the Company's Fixed Resource Requirement.

Q12. IS AEP OHIO'S REQUESTED CAPACITY CHARGE OF $355.72/MW-DAY THE APPROPRIATE CAPACITY COMPONENT TO USE IN BID PRICES?

A12. No. The appropriate capacity charge is the subject of the Capacity Charge Case which is underway. No Commission decision has been reached in that case as to the appropriate capacity charge. Thus, it is not certain that the $355.72/MW-Day capacity charge which AEP Ohio has requested in the Capacity Charge Case will be approved. There are in fact numerous parties that have various positions on the appropriate level of the capacity charge for suppliers. It is my general understanding that in the Capacity Charge Case all other parties' testimonies support levels of capacity charges lower than AEP Ohio's proposed $355.72/MW-Day. If the Commission determines in the Capacity Charge Case the levels of capacity charges that will be in effect during the term of the Modified ESP, those capacity charges (instead of the assumed $355.72/MW-Day) should be reflected in the bid price to determine the blended MRO price for the statutory test of the Modified ESP.

In addition to impacting the bid price for the statutory test, AEP Ohio's assumption of a $355.72/MW-Day capacity charge also impacts Ms. Thomas' quantification of other benefits of the Modified ESP. In Exhibit LJT-1, she lists "discounted, tiered capacity pricing for CRES providers," providing $988.7 million in benefits, as testified to by Mr. Allen. The $988.7 million represents the difference, over the term of the Modified ESP, between AEP Ohio's requested capacity charge of $355.72/MW-Day and the proposed tiered capacity pricing.

Inasmuch as the Commission has not authorized the capacity charges that AEP Ohio has only requested, a benefit from the Modified ESP calculated using the hypothetical capacity charge of $355.72/MW-Day is not an appropriate or meaningful number.

If the Commission, in the Capacity Charge Case, approves levels of capacity charges that will be in effect during the term of the Modified ESP, those capacity charges would be the basis for determining if the proposed tiered capacity pricing would be a benefit to AEP Ohio customers.

Even so, it is not clear that AEP Ohio could propose a tiered capacity pricing once levels of capacity pricing are approved by the Commission. In addition, it is possible that the approved capacity charge levels may be lower than the proposed tier pricing in the Modified ESP. In that situation, the Modified ESP's tier pricing would result in additional costs to customers. Therefore, I have not considered AEP Ohio's $988.7 million related to the tiered capacity pricing as a benefit of the Modified ESP, because it is overly speculative.

Q13. WHAT MAGNITUDE OF IMPACT DOES THE CAPACITY COMPONENT HAVE ON THE EXPECTED BID PRICE?

A13. As can be seen in Ms. Thomas' LJT-2, capacity is the second largest single component of her competitive benchmark prices. For the residential class,

capacity makes up more than one-third[7] of the bid price in each of the three years. The magnitude of a change in estimated bid price due to a reduction in the capacity component can be demonstrated through the use of the $145.79/MW-Day capacity charge which Ms. Thomas calculated. If the assumed capacity charge over the term of the Modified ESP is $145.79/MW-Day, the bid prices are reduced as follows:

$/MWH	Bid Price with $355.72 capacity cost[8]	Bid Price with $145.79 capacity cost[9]	Difference
PY 2012/2013	$69.36	$53.90	$15.46
PY 2013/2014	$71.09	$56.69	$14.40
PY 2014/2015	$74.34	$59.80	$16.54

Schedule BEH-2b provides the SSO Price Comparison using a $145.79/MW-Day capacity charge and blending the resulting bid prices for each year.

Q14. WHAT ARE THE RESULTS OF THE SSO PRICE COMPARISON?

A14. I have presented two scenarios of the SSO price comparison, reflecting different assumptions for the capacity component of the bid price. Schedule BEH-2a provides an SSO price comparison using the Company's requested $355.72/MW-Day capacity charge, which results in the Modified ESP being **more favorable** than the MRO SSO price by $86.6 million. Schedule BEH-2b provides the SSO

[7] 2012/2013 (30.01/80.53 = 37%); 2013/2014 (28.64/82.59 = 35%); 2014/2015 (28.83/85.90 = 34%).

[8] AEP Witness Thomas Direct Testimony (March 30, 2012), LJT-2.

[9] AEP Witness Thomas Direct Testimony (March 30, 2012), Workpaper 2012-3-30 Exhibits 2-14 and WPs.xls, CBP 146 tab.

price comparison using a $145.79/MW-Day capacity charge, which results in the Modified ESP being **less favorable** than the MRO price by $50.0 million

B. Other Rates Proposed Under the Modified ESP

Q15. SHOULD OTHER RATES AEP OHIO SEEKS UNDER THE MODIFIED ESP BE CONSIDERED IN APPLYING THE STATUTORY TEST?

A15. Yes. In evaluating the Modified ESP under the statutory test, the Commission should also consider AEP Ohio's proposals for a Retail Stability Rider ("RSR") and a Generation Resource Rider ("GRR")

Q16. WHAT IS THE RSR?

A16. AEP Ohio witness Allen describes the RSR as "being similar to a generation decoupling mechanism" that is designed to allow AEP Ohio to recover from all customers the loss of generation revenues. The RSR is directly related to AEP Ohio's proposed tiered capacity pricing. As Mr. Allen explains, under the Modified ESP any decrease in capacity charges results in an increase in the RSR.[10]

Q17. WHAT IS THE ESTIMTED COST TO CUSTOMERS FOR THE RSR?

A17. In Mr. Allen's WAA-6, he provides estimated RSR revenues of $284.1 million to be collected during the term of the ESP. This figure flows from establishing a

[10] AEP Ohio witness William A. Allen Direct Testimony (March 30, 2012) at 13-15.

target level of $929 million in annual non-fuel generation revenues, with a 10.5% return on equity. In addition to this $284.1 million for Rider RSR, the impact of any increase, as proposed by AEP Ohio, to the Rider Interruptible Power – Discretionary ("IRP-D") would be reflected in the RSR, and thus result in additional RSR revenues being collected from customers. The Company has not prepared a forecast of the impact of its proposed increase in the IRP-D credit on the RSR.[11] Therefore, in Schedule BEH-1 I have shown two line items related to the cost of the RSR, one at $284.1 million and the second as not readily quantified.

Q18. WHAT IS THE GRR?

A18. AEP Ohio witness Nelson describes the GRR as a non-bypassable rider which the Company will use to charge customers for the costs of "renewable and alternative capacity additions, as well as more traditional capacity constructed or financed by the Company and approved by the Commission."[12] He indicates the Company intends to use the GRR recover the costs of the proposed Turning Point Solar Project ("Turning Point") and that "it is not expected that there will be any additional projects during the term of the ESP." At this time the GRR is proposed as a "placeholder rider," established at a zero rate.

[11] AEP Ohio witness Roush Direct Testimony (March 30, 2012) at 9 and FES Interrogatory No. 1-004.

[12] AEP Ohio Witness Philip J. Nelson Direct Testimony (March 30, 2012) at 20.

Q19. IN HER MARCH 30, 2012 EXHIBIT LJT-1 MS. THOMAS LISTS THE GRR AS A BENEFIT OF THE MODIFIED ESP AT $0 COST. IN HER MAY 2, 2012 SUPPLEMENTAL TESTIMONY MS. THOMAS STATES THAT THE BENEFIT OR DIFFERENCE FOR THE TPS PROJECT UNDER THE STATUTORY TEST IS ZERO. DO YOU AGREE WITH THIS ANALYSIS OF THE GRR FOR THE STATUTORY TEST?

A19. No. Ms. Thomas's analysis is based on advice of Counsel that the GRR would be available to AEP Ohio under either an ESP or MRO.[13] It is my understanding, as confirmed by Counsel, that the non-bypassable GRR that AEP Ohio proposes under its Modified ESP "in accordance with Section 4928.143(B)(2)(c), Ohio Rev. Code"[14] would not be available to the Company under an MRO. Therefore, the estimated revenues to be collected from customers through the GRR for Turning Point should be considered in the statutory test.

While the Company proposes the GRR as a "placeholder rider" set at zero, if the Commission approves the GRR it becomes a rate mechanism through which AEP may charge all customers for the cost of generation facilities over the life of those facilities. To assume that there is $0 costs that will result from approval of the GRR significantly understates the costs associated with the Modified ESP. The estimated Turning Point cost is the minimum cost of the GRR. This is because, once the GRR is approved, AEP Ohio intends to continue to use this mechanism

[13] AEP Ohio Witness Thomas Direct Testimony (March 30, 2012) at 8 and Supplemental Testimony (May 2, 2012) at 2.

[14] Modified Application at 8.

as a means to seek recovery from customers of other unspecified future generation resources.

In addition, the Commission has recently indicated that the GRR costs, such as the Turning Point costs, should be considered in evaluating an ESP:

> As we established in our December 12, 2011, Opinion and Order, we believed the inclusion of projected Turning Point solar project costs were an important consideration in the statutory test under Section 4928.143, Revised Code. [15]

Q20. WHAT HAS AEP OHIO ESTIMATED AS THE TURNING POINT COSTS IT WILL SEEK TO CHARGE CUSTOMERS THROUGH THE GRR?

A20. AEP Ohio did not provide estimated Turning Point Costs in its March 30, 2012 Modified Application and direct testimony. The Company has taken the positions that it is uncertain as to what costs will recovered through the GRR,[16] it is not seeking approval of the GRR for Turning Point in this proceeding,[17] and it sought waivers of Commission filing requirements for the rate impacts and costs related to Turning Point. Through an April 25, 2012 Entry the Commission denied the waiver requests and directed AEP Ohio to file "information related to any projected rate impacts by customer class, as well as any projected costs that are

[15] April 25, 2012 Entry at 3.

[16] AEP Ohio Witness Thomas Direct Testimony (March 30, 2012) at 8.

[17] AEP Ohio Witness Nelson Direct Testimony (March 30, 2012) at 20.

currently known to be associated with the creation of the Turning Point facility" within seven days, or May 2, 2012.

In response to the Commission direction, on May 2, 2012 AEP Ohio filed Supplemental Testimonies of Mr. Nelson, Mr. Roush and Ms. Thomas. Mr. Nelson's estimated revenue requirements for Turning Point over a 25-year project life total $357.2 million, before credits for market capacity and energy revenues. Mr. Nelson estimated that during the Modified ESP period (i.e. 2014 through May 2015) the Turning Point revenue requirement would be $10.8 million, before $2.4 million credits for market and energy capacity revenues – for a net revenue requirement of $8.4 million.

Q21. WHAT ESTIMATED COST FOR THE GRR HAVE YOU USED IN THE STATUTORY TEST?

A21. For the purposes of the statutory test of the Modified ESP, I present an estimated net revenue requirement of $8.4 million for Turning Point as costs to AEP Ohio customers during the ESP. It is also important for the Commission to recognize that the GRR, as proposed, would result in charges to customers over the life of a generation facility. For Turning Point the remaining estimated revenue requirement for June 2015 through 2040 is $346.4 million, before credits for market capacity and energy revenues. Since AEP Ohio did not provide in its May 2, 2012 filing the estimates for market capacity and energy revenues for 2015 through 2040, OCC requested this information through discovery. However, the

response to that discovery was not available during the preparation of my testimony. Therefore, I present the remaining Turning Point revenue requirement of $346.4 million as future GRR costs to customers, but note that response to discovery is pending and that response could result in my updating these costs. (Schedule BEH-1).

C. Not- readily-quantifiable benefits claimed that will result in additional unknown costs to customers

Q22. DO YOU AGREE WITH MS. THOMAS' PRESENTATION OF "NOT READILY QUANTIFIABLE BENEFITS" OF THE MODIFIED ESP THAT SHOULD BE CONSIDERED IN THE STATUTORY TEST?

A22. No. To the extent that such claimed benefits are considered, the costs to customers associated with those benefits must also be considered. AEP Ohio's listed distribution-related riders — Distribution Improvement Rider ("DIR"), Enhanced Service Reliability Rider ("ESRR"), and gridSMART rider — all will impose additional costs on customers during the term of the Modified ESP. For the ESRR and gridSMART, estimates of revenues to be collected may not be readily quantifiable – but it is known that there will be costs to customers.

Since the Modified ESP proposes caps on DIR revenues it is clear that the maximum cost paid by customers through the DIR over the Modified ESP term will be $365.7 million.[18] AEP Ohio witness Allen argues that the DIR costs "could be recovered through

distribution base rate cases." However, the DIR accelerates the collection of these costs from customers as compared to collection through a distribution base rate case. The Commission has acknowledged the accelerated collection, characterizing AEP Ohio's proposed DIR as an "incentive ratemaking to accelerate recovery of the Company's investment in distribution service."[19]

In addition, given that the DIR collects only distribution investment, it is very possible that the same level of revenue might not be approved through a distribution base rate case because such a rate case incorporates Commission review of the Company's entire rate base, revenues, expenses and rate of return. Even if it is assumed that the identical level of DIR revenues would be paid by customers through a future distribution rate increase case, the additional cost for customers having to pay the Company sooner needs to be considered. To estimate the difference between revenue collected under the DIR and revenue that would be collected under a distribution rate increase, assumptions would have to be made on what increase the Company would request, what the Commission would approve and when the increase would be effective. Thus, estimates of the cost to customers for the accelerated payment may not be readily quantifiable – but it is known that customers will pay AEP Ohio sooner through the DIR.

[18] 2012 $86 million, 2013 $104 million, 2014 $124 million and $51.7 million for January through May, 2015. AEP Ohio Witness Allen Direct Testimony (March 30, 2012) at 11.

[19] Opinion and Order (December 14, 2011) at 45.

D. Additional unknown costs to customers will result from the Modified ESP

Q23. ARE THERE PROVISIONS IN THE MODIFIED ESP THAT WILL RESULT IN COSTS TO CUSTOMERS THAT MS. THOMAS HAS NOT INCLUDED IN HER EVALUATION OF THE STATUTORY TEST?

A23. Yes, the Commission should consider in the statutory test that certain AEP Ohio proposals within the Modified ESP will result in other additional unknown costs to customers. Failure to consider these certain proposals would result in an underestimation of the costs associated with the Modified ESP. AEP Ohio requests Commission approval of accounting authority for "deferral for future recovery" of two items – (1) the net book value of retired meters related to gridSMART and (2) storm damage expenses.[20] While the Company has not proposed immediate rate recovery within the Modified ESP, AEP Ohio's intent is to receive approval of deferral accounting so that it has established the probability of future recovery from customers of the deferred costs, and seemingly carrying costs on those deferrals.[21]

Mr. Kirkpatrick recommends that with a full system deployment of smart meters "because of the expected volume of meters to be displaced" the net book value of retired

[20] AEP Ohio witness Thomas E. Mitchell Direct Testimony (March 30, 2012) at 9.

[21] Neither AEP Ohio witness Mitchell nor Kirkpatrick specifically addresses carrying costs on these proposed deferrals in their March 30, 2012 testimonies.

meters be deferred and "recovered in a future filing," but does not quantify the resulting future costs to customers.[22]

Mr. Mitchell and Mr. Kirkpatrick describe the Company's proposed storm damage recovery mechanism under which a base line of $5 million is established. The Company, beginning January 1, 2012, will defer (as a regulatory asset or liability) the actual storm expenses above or below the $5 million, for future collection from customers. Neither witness quantifies the resulting future costs to customers for storm expenses.

While the storm expenses that might be deferred under the Company's proposal may not be known at this time, the Company previously provided in this proceeding, and in their recent distribution rate case, the major storm expense that the utility has historically experienced. A review of this data provides insight as to the magnitude of major storm expense for AEP Ohio:

Year	Major Storm Expense Million $'s
2005	11.8
2006	6.9
2007	1.8
2008	3.5
2009	21.7
2010	8.1
2011 (to July 5)	10.7
Source: PUCO Set #141-001, Attachment 1 Case Nos. 11-351-EL-AIR et al.	

[22] AEP Ohio Witness Thomas J. Kirkpatrick Direct Testimony (March 30, 2012) at 11.

IV. CONCLUSION

Q24. BASED ON YOUR REVIEW OF THE STATUTORY TEST FOR AEP OHIO's MODIFIED ESP, WHAT IS YOUR RECOMMENDATION TO THE COMMISSION?

A24. I recommend the Commission reject the Modified ESP because it fails to meet the statutory test. AEP Ohio's proposed Modified ESP is not more favorable in the aggregate as compared to the expected results that would otherwise apply under a market rate offer under Ohio law. As shown in Schedule BEH-1, the Modified ESP produces results that are less favorable in the aggregate than the expected MRO results because:

- On a quantifiable basis, the Modified ESP, through SSO prices for generation and other rate components, results in significant additional costs to customers over what is expected under an MRO. Even if AEP Ohio's assumption of a $355.72/MW day capacity charge is accepted — and I do not recommend acceptance of a $355.72/MW-day capacity charge — the Modified ESP's additional costs total $552.3 million. (Schedule BEH-1)
- Additional not readily identifiable costs and unknown costs to customers will result from certain provisions of the Modified ESP. (Schedule BEH-1) The Commission should recognize that those unknown costs are not zero - and that customers will be asked to pay more than zero for those costs. Thus, these costs will also reduce the overall claimed benefit of the

Modified ESP and should be considered by the Commission in comparing the aggregate results of the proposed Modified ESP to the expected results of an MRO.

Q25. DOES THIS CONCLUDE YOUR TESTIMONY?

A25. Yes. However, I reserve the right to incorporate new information that may subsequently become available. I also reserve the right to supplement my testimony in the event that AEP Ohio, the PUCO Staff or other parties submit new or corrected information in connection with this proceeding; if additional information is provided through discovery; and if additional information relevant to my testimony becomes available as a result of the Commission's April 25, 2012 Entry related to denial of waivers.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Direct Testimony of Beth Hixon* was served via electronic transmission to the persons listed below on this 4th day of May, 2012.

/s/ Maureen R. Grady
Maureen R. Grady
Assistant Consumers' Counsel

PARTIES SERVED

Werner.margard@puc.state.oh.us
John.jones@puc.state.oh.us
lmcalister@bricker.com
MWarnock@bricker.com
stnourse@aep.com
mjsatterwhite@aep.com
tobrien@bricker.com
fdarr@mwncmh.com
joliker@mwncmh.com
ghummel@mwncmh.com
ricks@ohanet.org
msmalz@ohiopovertylaw.org
jmaskovyak@ohiopovertylaw.org
Philip.sineneng@thompsonhine.com
Dorothy.corbett@duke-energy.com
myurick@taftlaw.com
dconway@porterwright.com
cmoore@porterwright.com
haydenm@firstenergycorp.com
mkurtz@BKLlawfirm.com
dboehm@BKLlawfirm.com
emma.hand@snrdenton.com
doug.bonner@snrdenton.com
dan.barnowski@snrdenton.com
JLang@Calfee.com
lmcbride@calfee.com
talexander@calfee.com
ssolberg@eimerstahl.com
aaragona@eimerstahl.com
dstahl@eimerstahl.com
whitt@whitt-sturtevant.com
thompson@whitt-sturtevant.com
vparisi@igsenergy.com
mswhite@igsenergy.com
kaelber@buckleyking.com
walter@buckleyking.com
judi.sobecki@dplinc.com
jejadwin@aep.com
mhpetricoff@vorys.com
smhoward@vorys.com
mjsettineri@vorys.com
wmassey@cov.com
henryeckhart@aol.com
jesse.rodriguez@exeloncorp.com
sandy.grace@exeloncorp.com
kpkreider@kmklaw.com
dmeyer@kmklaw.com
holly@raysmithlaw.com
BarthRoyer@aol.com
Gary.A.Jeffries@dom.com
gthomas@gtpowergroup.com
laurac@chappelleconsulting.net
Christopher.miller@icemiller.com
Gregory.dunn@icemiller.com
Asim.Haque@icemiller.com
sjsmith@szd.com
tsantarelli@elpc.org
nolan@theoec.org
trent@theoec.org
cathy@theoec.org
ned.ford@fuse.net
gpoulos@enernoc.com
sfisk@nrdc.org
zkravitz@taftlaw.com
aehaedt@jonesday.com
dakutik@jonesday.com
callwein@wamenergylaw.com
Terrance.Mebane@ThompsonHine.com
bpbarger@bcslawyers.com
cendsley@ofbf.org
dane.stinson@baileycavalieri.com
jmclark@vectren.com
sbruce@oada.com

randall.griffin@dplinc.com
Carolyn.Flahive@ThompsonHine.com
Stephanie.Chmiel@ThompsonHine.com
rjhart@hahnlaw.com
rremington@hahnlaw.com
djmichalski@hahnlaw.com
jhummer@uaoh.net
tlindsey@uaoh.net
ssalamido@cloppertlaw.com
arthur.beeman@snrdenton.com

rsugarman@keglerbrown.com
matt@matthewcoxlaw.com
mchristensen@columbuslaw.org
toddm@wamenergylaw.com
rburke@cpv.com
bkelly@cpv.com
eisenstatl@dicksteinshapiro.com
lehfeldtr@dicksteinshapiro.com
kinderr@dicksteinshapiro.com
kwatson@cloppertlaw.com
Thomas.millar@snrdenton.com
James.rubin@snrdenton.com

AEs: greta.see@puc.state.oh.us
Jonathan.tauber@puc.state.oh.us

Beth E. Hixon
Utility Testimony Submitted

As an employee of the Office of the Ohio Consumers' Counsel (OCC):

Company	Docket No.	Date
Ohio Power	83-98-EL-AIR	1984
Ohio Gas	83-505-GA-AIR	1984
Dominion East Ohio Gas	05-474-GA-ATA	2005
Dayton Power & Light	05-792-EL-ATA	2006
Duke Energy Ohio	03-93-El-ATA et al.	2007
Dominion East Ohio	08-729-GA-AIR	2008
AEP Ohio	08-917-EL-SSO et al.	2008

As an employee of Berkshire Consulting Service:

Company	Docket No.	Date	Client
Toledo Edison	88-171-EL-AIR	1988	OCC
Cleveland Electric Illuminating	88-170-EL-AIR	1988	OCC
Columbia Gas of Ohio	88-716-GA-AIR et al.	1989	OCC
Ohio Edison	89-1001-EL-AIR	1990	OCC
Indiana American Water	Cause No. 39595	1993	Indiana Office of the Utility Consumer Counsel
Ohio Bell	93-487-TP-CSS	1994	OCC
Ohio Power	94-996-EL-AIR	1995	OCC
Toledo Edison	95-299-EL-AIR	1996	OCC
Cleveland Electric Illuminating	95-300-EL-AIR	1996	OCC
Cincinnati Gas & Electric	95-656-GA-AIR	1996	City of Cincinnati, OH

Schedule BEH-1

Statutory Test
Modified ESP compared to expected results of an MRO

(Million $)	AEP Ohio requested $355.72 capacity			$145.79 capacity		
	ESP period (June 2012 - May 2015)	Future (post May 2015)	Total	ESP period (June 2012 - May 2015)	Future (post May 2015)	Total
QUANTIFIABLE BENEFITS (COSTS):						
SSO Price Comparison (a)	86.6		86.6	(50.0)		(50.0)
Discounted, tiered capacity for CRES (b)						
Retail Stability Rider (does not include additional cost for IRP-D, see below as NRQ) (c)	(284.1)		(284.1)	(284.1)		(284.1)
Generation Resource Rider (d)	(8.4)	(346.4)	(354.8)	(8.4)	(346.4)	(354.8)
Total Quantifiable Benefits (Costs)	(205.9)	(346.4)	(552.3)	(342.5)	(346.4)	(688.9)

OTHER NOT READILY QUANTIFIABLE (NRQ):	**Benefit**	**Cost**
Delivery and pricing of energy at market prices beginning 1/15, sooner than under an MRO	NRQ (c)	Modified ESP
Fixed EICCR amount rolled into non-fuel generation rates	NRQ (c)	Modified ESP
No non-fuel generation rate increase	NRQ (c)	Modified ESP
Unification of PIRR and FAC	NRQ (c)	Modified ESP
Advancement of state policies	NRQ (c)	Modified ESP
Distribution Improvement Rider (DIR)	NRQ (c)	NRQ - acceleration of payment by customers (b)
Enhanced Service Reliability Rider (ESRR)	NRQ (c)	NRQ (b)
gridSMART Rider	NRQ (c)	NRQ (b)
Retail Stability Rider - cost additional to above quantification for IRP-D		NRQ (b)
Deferral of Storm Expenses		Unknown (b)
Deferral of Retired Meter Net Book Value		Unknown (b)

(a) BEH-2a & b
(b) Hixon Testimony
(c) Thomas LJT-1, p. 1
(d) Nelson PJN-5 (5/2/12), future amounts not net of market energy and capacity revenues (see Hixon testimony) pending discovery responses

Schedule BEH-2a

Statutory Test
Modified ESP compared to expected results of an MRO

SSO Price Comparison - AEP Ohio requested $355.72 capacity in Expected MRO Bid

	Generation Service Price ($/MWH)		PY 2012/2013 (1)	PY 2013/2014 (2)	PY 2014/2015 Jun-Dec 2014 (3)	PY 2014/2015 Jan-May 2015 (4)	Wtd Average
1	Current Base ESP 'g' Rate		21.26	21.26	21.28	21.22	21.26
2	Current TCCR 'g' component		2.95	2.95	2.95	2.94	2.95
3	Current EICCR		1.60	1.60	1.61	1.60	1.60
4	Market Comparable Base 'g'		25.81	25.81	25.84	25.76	25.81
5	Current Fuel Factor		36.35	36.36	36.39	36.32	36.36
6	Total Generation Service Price for blending		62.16	62.17	62.23	62.08	62.17
	Expected Bid Price ($/MWH)	(b)					
7	Competitive Benchmark (at $355.72/MW-Day)		69.36	71.09	74.34	74.34	71.60
	MRO Pricing ($/MWH)						
8	Generation Service Price		62.16	62.17	62.23	62.08	62.17
9	Generation Service Weight		90%	80%	70%	70%	
10	Expected Bid Price		69.36	71.09	74.34	74.34	71.60
11	Expected Bid Weight		10%	20%	30%	30%	
12	MRO Annual Price		62.88	63.95	65.86	65.76	64.22
	MRO - ESP Price Comparison ($/MWH)						
13	Proposed Modified ESP Price	(c)	62.12	61.79	61.82	74.34	63.62
14	MRO Annual Price		62.88	63.95	65.86	65.76	64.22
15	Modified ESP Benefit (Cost)		0.76	2.16	4.04	(8.58)	0.60

SSO Price Comparison - Revenue (Price x kWh (d))

	Generation Service Price	PY 2012/2013 (1)	PY 2013/2014 (2)	PY 2012/2013 Jun-Dec 2014 (3)	PY 2012/2013 Jan-May 2015 (4)	Total
16	Current Base ESP 'g' Rate	$1,024,623,306	$1,026,026,251	$605,071,259	$418,841,336	$3,074,562,152
17	Current TCCR 'G' component	142,174,918	142,369,588	83,879,709	58,029,855	426,454,070
18	Current EICCR	77,111,820	77,217,404	45,778,418	31,580,874	231,688,516
19	Market Comparable Base 'g'	1,243,910,044	1,245,613,243	734,729,386	508,452,065	3,732,704,738
20	Current Fuel Factor	1,751,884,157	1,754,765,497	1,034,705,973	716,885,831	5,258,241,458
21	Total Generation Service Price for blending	2,995,794,201	3,000,378,740	1,769,435,359	1,225,337,896	8,990,946,196
	Expected Bid Price					
22	Competitive Benchmark (at $355.72/MW-Day)	3,342,797,391	3,430,865,764	2,113,768,674	1,467,326,339	10,354,758,168
	MRO Pricing					
23	Generation Service Price	2,995,794,201	3,000,378,740	1,769,435,359	1,225,337,896	8,990,946,196
24	Generation Service Weight	90%	80%	70%	70%	
25	Expected Bid Price	3,342,797,391	3,430,865,764	2,113,768,674	1,467,326,339	10,354,758,168
26	Expected Bid Weight	10%	20%	30%	30%	
27	MRO Annual Price	3,030,494,520	3,086,476,145	1,872,735,354	1,297,934,429	9,287,640,447
	MRO - ESP Price Comparison					
28	Proposed Modified ESP Price	2,993,866,406	2,982,039,606	1,757,777,501	1,467,326,339	9,201,009,852
29	MRO Annual Price	3,030,494,520	3,086,476,145	1,872,735,354	1,297,934,429	9,287,640,447
30	Modified ESP Benefit (Cost)	$36,628,114	$104,436,539	$114,957,853	($169,391,910)	$86,630,595

(a) Thomas 3-30-12 testimony, Exhibit LJT-1, page 2 of 3
(b) Thomas 3-30-12 testimony, Exhibit LJT-1, page 2 of 3
(c) Roush 3-30-12 testimony, Exhibit DMR-2 and Expected Bid Price for Jan - May 2015
(d) Thomas 3-30-12 testimony, Exhibit LJT-1, page 3 of 3

	Connected Load (kWh)	48,194,887,407	48,260,877,259	28,433,799,761	19,738,045,996	144,627,610,423

Schedule BEH-2b

Statutory Test
Modified ESP compared to expected results of an MRO

SSO Price Comparison - $145.79 capacity in Expected MRO Bid

	Generation Service Price ($/MWH)		PY 2012/2013 (1)	PY 2013/2014 (2)	PY 2014/2015 Jun-Dec 2014 (3)	PY 2014/2015 Jan-May 2015 (4)	Wtd Average
1	Current Base ESP 'g' Rate		21.26	21.26	21.28	21.22	21.26
2	Current TCCR 'g' component		2.95	2.95	2.95	2.94	2.95
3	Current EICCR		1.60	1.60	1.61	1.60	1.60
4	Market Comparable Base 'g'		25.81	25.81	25.84	25.76	25.81
5	Current Fuel Factor		36.35	36.36	36.39	36.32	36.36
6	Total Generation Service Price for blending		62.16	62.17	62.23	62.08	62.17
	Expected Bid Price ($/MWH)	(b)					
7	Competitive Benchmark (at $145.79/MW-Day)		53.90	56.69	59.80	59.80	56.80
	MRO Pricing ($/MWH)						
8	Generation Service Price		62.16	62.17	62.23	62.08	62.17
9	Generation Service Weight		90%	80%	70%	70%	
10	Expected Bid Price		53.90	56.69	59.80	59.80	56.80
11	Expected Bid Weight		10%	20%	30%	30%	
12	MRO Annual Price		61.33	61.07	61.50	61.40	61.29
	MRO - ESP Price Comparison ($/MWH)						
13	Proposed Modified ESP Price	(c)	62.12	61.79	61.82	59.80	61.63
14	MRO Annual Price		61.33	61.07	61.50	61.40	61.29
15	Modified ESP Benefit (Cost)		(0.79)	(0.72)	(0.32)	1.60	(0.35)

SSO Price Comparison - Revenue (Price x kWh (d))

	Generation Service Price	PY 2012/2013 (1)	PY 2013/2014 (2)	PY 2012/2013 Jun-Dec 2014 (3)	PY 2012/2013 Jan-May 2015 (4)	Total
16	Current Base ESP 'g' Rate	$1,024,623,306	$1,026,026,251	$605,071,259	$418,841,336	$3,074,562,152
17	Current TCCR 'G' component	142,174,918	142,369,588	83,879,709	58,029,855	426,454,070
18	Current EICCR	77,111,820	77,217,404	45,778,418	31,580,874	231,688,516
19	Market Comparable Base 'g'	1,243,910,044	1,245,613,243	734,729,386	508,452,065	3,732,704,738
20	Current Fuel Factor	1,751,884,157	1,754,765,497	1,034,705,973	716,885,831	5,258,241,458
21	Total Generation Service Price for blending	2,995,794,201	3,000,378,740	1,769,435,359	1,225,337,896	8,990,946,196
	Expected Bid Price					
22	Competitive Benchmark (at $145.79/MW-Day)	2,597,704,431	2,735,909,132	1,700,341,226	1,180,335,151	8,214,289,940
	MRO Pricing					
23	Generation Service Price	2,995,794,201	3,000,378,740	1,769,435,359	1,225,337,896	8,990,946,196
24	Generation Service Weight	90%	80%	70%	70%	
25	Expected Bid Price	2,597,704,431	2,735,909,132	1,700,341,226	1,180,335,151	8,214,289,940
26	Expected Bid Weight	10%	20%	30%	30%	
27	MRO Annual Price	2,955,985,224	2,947,484,818	1,748,707,119	1,211,837,073	8,864,014,234
	MRO - ESP Price Comparison					
28	Proposed Modified ESP Price	2,993,866,406	2,982,039,606	1,757,777,501	1,180,335,151	8,914,018,664
29	MRO Annual Price	2,955,985,224	2,947,484,818	1,748,707,119	1,211,837,073	8,864,014,234
30	Modified ESP Benefit (Cost)	($37,881,182)	($34,554,788)	($9,070,382)	$31,501,922	($50,004,430)

(a) Thomas 3-30-12 testimony, Exhibit LJT-1, page 2 of 3
(b) Thomas Workpaper 2012-3-30 Exhibits 2-4 and WPs.xls, CBP 146
(c) Roush 3-30-12 testimony, Exhibit DMR-2 and Expected Bid Price for Jan - May 2015
(d) Thomas 3-30-12 testimony, Exhibit LJT-1, page 3 of 3

	Connected Load (kWh)	48,194,887,407	48,260,877,259	28,433,799,761	19,738,045,996	144,627,610,423

Summary: Testimony Testimony of Beth E. Hixon on Behalf of the Office of the Ohio Consumers' Counsel electronically filed by Patti Mallarnee on behalf of Grady, Maureen