BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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

REPLY BRIEF OF THE STAFF OF THE PUBLIC UTILITIES COMMISSION OF OHIO

Mike DeWine

Ohio Attorney General

William L. Wright
Section Chief, Public Utilities Section

John H. Jones
Steven L. Beeler
Assistant Attorneys General
180 East Broad Street, 6th floor
Columbus, Ohio 43215-3739
Telephone: (614) 466-4396
Facsimile: (614) 644-8764
john.jones@puc.state.oh.us
steven.beeler@puc.state.oh.us

Counsel for the Staff of the
Public Utilities Commission of Ohio

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INTRODUCTION

AEP Ohio's proposed formula rate is neither just nor reasonable. It significantly exceeds the Company's costs of providing capacity service to shopping load. Depending on contract terms, rate shock could be experienced by CRES providers and/or shopping customers. Shopping will diminish or disappear. And, AEP Ohio shareholders will receive a windfall return at the expense of CRES providers and/or shopping customers. AEP Ohio's proposed rate contravenes Ohio's policies to promote retail choice and foster genuine competition. AEP Ohio is attempting to confuse the Commission into believing it is the one that will suffer significant financial harm if its excessive demand is not granted. In reality, retail competition and customer choice will be harmed and, once again, will be non-existent as it was in the past if AEP Ohio gets its way.

The Staff asks the Commission to find that the prevailing PJM Reliability Pricing Model ("RPM") capacity rates for the June 1, 2012 through May 31, 2015 period, are appropriate charges to CRES providers in the AEP Ohio service area. If the Commission disagrees, then Staff proposes an alternative capacity charge of $146.41/MW-Day, as additional stability for AEP Ohio to transition from its FRR status to an RPM entity starting on June 1, 2015.

Since the other parties have already addressed and adequately supported the RPM rate that Staff shares as a primary position, Staff will focus its reply argument, instead, on AEP Ohio's criticism of Staff's alternative rate proposal. Staff's alternative proposed capacity rate makes reasonable adjustments and credits to AEP Ohio's revised and overcharged formula rate. Staff's alternative plan provides AEP Ohio the ability to maintain earnings during the transition to full deregulation; thereby allowing it to attract capital investment to ensure reliability and meet its FRR obligations. But, at the same time, Staff's plan balances the Commission's other goal to promote alternative competitive supply and incent customer choice.

ARGUMENT

I. AEP Ohio's proposed capacity rate of $355.72/MW-Day is neither just nor reasonable.

AEP Ohio argues that Staff witness Smith eliminated some costs and made unwarranted downward adjustments to other costs included in a template Dr. Pearce used, which was previously approved by FERC. AEP Ohio suggests that the Ohio Commission must follow what FERC would do if the capacity rate matter were being litigated before it instead of the Ohio Commission. AEP Ohio is simply wrong for two reasons. First, the template has never been used to determine a capacity rate for retail customer load.[1] Instead, the template Mr. Pearce relied on was used for some wholesale ratemaking contracts.[2] Those contracts do not represent a general FERC endorsement for the circumstances or the issue we are addressing here.[3] It is not the right model for our case.[4] The model used by AEP Ohio maybe consistent with ratemaking practices at FERC at a point in time prior to the introduction of competitive forces into the regulatory construct.[5] But this case is not at FERC, so Staff witness Smith made adjustments to some of AEP Ohio's components to be consistent with Ohio ratemaking practices.[6] FERC applies a different standard to cash working capital, CWIP, prepaid pensions expense amounts, AEP Ohio's 2010 Severance Program, Section 199 DPAD adjustment, etc., than what the Ohio Commission applies to these components.[7]

Whether the Commission decides upon a capacity charge to apply to CRES providers in its modified ESP or whether the Commission makes that decision in the instant case, the Ohio Commission has jurisdiction to apply Ohio regulatory practices and

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1 Tr. Vol. IX at 1976.

2 *Id*.

3 *Id*.

4 *Id*. at 1977.

5 *Id*. at 1978.

6 *Id*. at 1979.

7 *Id*. at 1979-1988.

set this rate. Staff's objective here was not to try to find increases or decreases per se; it was to look at the data and try to come up with a fair and reasonable price for capacity consistent with Ohio regulatory principles.[8] Staff rebuts AEP Ohio's claims of error and explains why other adjustments to Dr. Pearce's formula rate template are warranted, as provided below.

A. AEP Ohio's proposed ROE is significantly higher than its regulated affiliates in other jurisdictions, its last Distribution rate case, and what was approved in Ohio as recorded in its 2011 10-K report on the Company's regulatory activities.

1) Return on Equity

AEP Ohio argues that Staff witness Smith simply plucked lower ROE values from a negotiated stipulation in a distribution case. This statement is hypocritical. AEP Ohio did the same thing, except it went one step further. AEP used its litigation position in the distribution case for its proposed ROE in this case. Staff used what the Commission actually approved and what AEP Ohio reported in its 2011 10-K to the SEC. Staff submits that its Commission approved ROE carries much more weight than AEP Ohio's litigation position.

AEP Ohio modified the ROE in the Minden/Prescott template from 11.10% to 11.15% to support its formula based capacity rate in this case. The problems with AEP Ohio's proposed ROE are threefold: (1) it exceeds the 10.0% ROE for CSP and 10.3% ROE for OPCo approved by the Commission approved for AEP Ohio on December 14,

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8 *Id*. at 1984.

2011 in its last Distribution rate case;[9] (2) it exceeds the ROE of any other AEP affiliated utility;[10] and (3) it is higher than the ROE reported, as approved in Ohio, by AEP Ohio in its 2011 10-K.[11]

AEP Ohio gave inconsistent and incomplete responses to the question of what its ROE would be if the proposed $355.72/MW-Day capacity rate were approved for the three year period. First, in response to Commissioner Porter's question in the hearing, AEP Ohio witness Allen testified it would be about 11% plus the OSS margins.[12] Mr. Allen next testified on rebuttal that AEP Ohio would receive a 12.2% ROE in 2013 for that same capacity rate.[13] Given the incomplete and inconsistent answers it is difficult to tell what the ROE would be. AEP Ohio did not bother to disclose the ROE for its proposed rate in 2014 and the first half of 2015. AEP Ohio witness Pearce filed testimony requesting a fixed 11.15% ROE for the three year term.[14] Whether the ROE for the term is 11% plus OSS, a fixed 11.15%, 12.2%, or possibly an undisclosed higher percentage, AEP Ohio's ROE request is excessive and unreasonable in comparison to what the Commission has previously approved for this Company and what other jurisdictions have approved for AEP Ohio's affiliates. Staff's proposed ROE aligns with

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9 Staff Ex. 103, Direct Testimony of Ralph Smith at 12-13 (April 16, 2012).

10 RESA Ex. 103, AEP Co., Inc.'s 10-K filed on 2/28/2012.

11 *Id*.

12 Tr. Vol. III at 722.

13 Rebuttal Testimony of William A. Allen, AEP Ohio Ex. 142 at 21.

14 Direct Testimony of Kelly D. Pearce, AEP Ohio Ex. 102 at 11.

prior precedent and is supported by what other jurisdictions have approved for AEP Ohio's affiliates.

Finally, Staff witness Smith testified that "for purposes of developing this rate that they will charge to CRES providers, based on recovery of embedded costs it seems to me that's actually a lower risk than the distribution function."[15] Staff witness Smith continued:

> Here, it seems to me, this is essentially more like a regulated monopoly function where you're charging this rate to customers that want to provide this service. They have—I guess they have to pay AEP for the capacity. AEP is pretty much assured of collecting it, and, I mean, I guess I view it almost like a regulated monopoly-type ratemaking thing in the context it is being applied.[16]

Staff's proposed ROE of 10.0% for CSP and 10.3% for OPCo is further supported by OEG witness Lane Kollen, who calculated that AEP Ohio's 2011 ROE was 10.21% (on a per books unadjusted basis) on the RPM price of $145.79/MW-Day.[17] Staff's ROE will allow AEP Ohio to earn more than a sufficient return just as it did in 2011.

2) Staff addresses AEP Ohio's "trapped costs" claim

AEP Ohio claims Staff witness Smith made an error by failing to account for $66.5 million in certain energy costs that were ignored in his calculation. AEP Ohio

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15 *Id*. at 1991-1992.

16 *Id*. at 1993.

17 Direct Testimony of Lane Kollen, OEG Ex. 102 at Ex. LK-3.

claims this resulted in understated costs. AEP Ohio further claims that fixing the error would add a value of $20.11/MW-Day to the capacity price.[18]

Staff witness Smith was shown AEP Ohio Exhibit 125 and asked to review the costs underneath "Total Production Expense – Own Generation" starting at line 24 at the left side of the page.[19] The costs beginning on line 24 of that exhibit included A&G Expense-Energy, Return on Rate Base-Energy, Depreciation Expense-Energy, Income Tax-Energy, and Purchase Power-Energy.[20] Mr. Smith was asked whether he included these costs in his cost-based capacity rate and he replied that they were excluded.[21] Mr. Smith explained why:

> Some of these items appear to be related to energy, and my calculations were basically focused on the capacity costs, so it looks like these items would have been excluded primarily, and they all appear to be in reference to Dr. Pearce's Exhibits 3 and 4, which were my starting point, but not my ending point…I mean there's the line A&G Energy. It seems like that would be an energy cost, not a capacity cost…These items are specifically labeled "energy," so to the extent they were energy and not demand, they were not included in my numbers.[22]

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[18] Ohio Power Company's Initial Brief at 81.

[19] Tr. Vol. IX at 2014.

[20] *Id*. at 2014-2015.

[21] *Id*. at 2015.

[22] Tr. Vol. IX at 2015-2016.

Staff witness Smith also stated that Mr. Harter did not include these costs in his analysis of the energy credit.[23] Mr. Smith testified he thought Mr. Harter calculated his energy credit a different way; in other words Mr. Harter didn't apply a Return on Rate Base-Energy, as is shown on line 26 of AEP Ohio Exhibit 125.[24] Mr. Smith said there is no explicit factoring in of depreciation expense for energy in Mr. Harter's calculation, nor is there recognition of any income taxes on energy.[25]

3) Construction Work in Progress

AEP Ohio argues that Staff witness Smith should not have excluded construction work in progress ("CWIP") from rate base.[26] Mr. Smith testified that FERC has a different standard for CWIP than what is required under Ohio law.[27] FERC does not apply the 75 percent completion standard.[28] Unlike FERC, the Ohio Commission is required to apply the 75 percent standard as required by Ohio law.[29]

This proceeding is governed by Ohio law so the 75 percent completion requirement must apply. AEP Ohio failed to meet this requirement so Mr. Smith

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23 *Id*.

24 *Id*. at 2015.

25 *Id*. at 2015-2016.

26 Ohio Power Company's Initial Brief at 89.

27 Tr. Vol. IX at 1979.

28 *Id*. at 1979-1980.

29 *Id*.

properly excluded CWIP, for both environmental and non-environmental CWIP, from rate base.

4) Cash Working Capital

AEP Ohio argues that Mr. Smith eliminated cash working capital due to the Company's failure to complete a lead-lag study, while conceding that FERC has approved formula-based rates that include cash working capital allowances.[30] AEP Ohio's claim is based on a one-eighth O&M formula method.[31]

The assumption underlying a one-eighth cash working capital allowance is that revenues for the service are collected, on-average, 45 days after cash operating expenses are paid to produce the service.[32] AEP Ohio has presented no reliable evidence that it has a net cash working capital requirement of 45 days (1/8 of 365 days=45 days).[33]

Mr. Smith testified that the Ohio Commission, unlike FERC who applies a different regulatory standard, does not use cash working capital for large companies like AEP Ohio.[34] For these reasons, Mr. Smith properly eliminated cash working capital.

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30 Ohio Power Company's Initial Brief at 91.

31 Direct Testimony of Ralph C. Smith, Staff Ex. 103 at 19.

32 *Id*. at 20.

33 *Id*.

34 Tr. Vol. IX at 1979.

5) Prepayments

AEP Ohio claims Mr. Smith's elimination of prepaid pension expenses differs from the Commission's treatment of the same cost categories in the Company's distribution rate case.[35] Mr. Smith testified that he was aware that the pension asset had been included by Staff in both staff reports for CSP and OPCo in AEP Ohio's last distribution rate case.[36] However, Mr. Smith concluded, in this instance, that the pension asset was not related to the provision of capacity service.[37] In Mr. Smith's judgment the pension asset did not belong in a rate case for capacity under these factual circumstances.[38]

The additional contributions that were made to support the prepaid pension asset, to benefit customers, did not result in reduced pension costs.[39] So these discretionary contributions that went to fund the defined benefit pension plan certainly did not pay off in terms of a reduction to the pension expense as contained in the FERC Form 1 numbers.[40]

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35 Ohio Power Company's Initial Brief at 88.

36 Tr. Vol. IX at 1995.

37 *Id*. at 1995-1996.

38 *Id*. at 1996.

39 *Id*. at 1996.

40 *Id*. at 1996-1997.

The capacity rate being developed here will be in effect for approximately three years.[41] It is questionable whether the payers of this rate will see any benefit from reductions to the Company's pension expense.[42] The prepaid pension expenses were properly excluded from rate base by Mr. Smith because the expenses are not applicable in the context of a generation rate.[43]

6) Payroll and Benefits for Eliminated Positions

AEP Ohio claims Mr. Smith's elimination of certain severance costs is contrary to treatment of the same costs by the Commission.[44] The 2010 severance cost should be removed from 2010 O&M Expense because rates for AEP Ohio's generating capacity are being established prospectively and this was a significant non-recurring cost that was recorded in 2010.[45]

There is no demonstrated need for a prospective amortization of 2010 severance cost in the current case to determine a revenue requirement for AEP Ohio's capacity.[46] AEP Ohio began to realize cost savings due to the reduced salaries as soon as employees accepted the voluntary retirement offer and/or were involuntary terminated in mid-

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41 *Id*.

42 *Id*.

43 *Id*. at 1996.

44 Ohio Power Company's Initial Brief at 85.

45 Staff Ex. 103 at 46.

46 *Id*.

2010.[47] Amortization of the cost to achieve that savings should have commenced as soon as the savings from the reduced work force and reduced AEPSC charges commenced.[48]

AEP Ohio has not demonstrated that there is any net amount of remaining costs to achieve that has not already been absorbed by related savings experienced by AEP Ohio through June 1, 2012, the approximate effective date of new rates in this proceeding.[49] Consequently, there is no need for a prospective amortization of 2010 severance costs in establishing AEP Ohio's revenue requirement for capacity rates that would be applied prospectively from June 1, 2012.[50]

II. In regard to Staff's alternate proposal, margins from energy sales and ancillary receipts should be treated as deductions to the calculated rate for capacity.

AEP Ohio argues that Staff's methodology for calculating an energy credit is flawed in numerous ways and is therefore overstated. Staff argues that AEP Ohio's proposed capacity rate is flawed because it does not provide *any* offset of the profits it made from off system sales ("OSS") to protect consumers from overpaying for capacity. FirstEnergy Solutions ("FES") witness Lesser testified that the Company, under AEP

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47 *Id*.

48 *Id*. at 46-47.

49 *Id*. at 47.

50 *Id*.

Ohio's proposal not to offset capacity costs with margin from OSS, is recovering its embedded costs twice, "first, through its embedded capacity cost and second through off-system energy sales."[51] "Double recovery" of the same costs is improper and would result in unjust and unreasonable public utility service rates.[52]

An energy credit that recognizes the profits from OSS is warranted in establishing a state compensation mechanism based on a cost-based model. If an energy credit is not recognized AEP Ohio will earn more than 11.15% in 2012 and more than 12.2% in 2013, which will result in a financial windfall to AEP Ohio. FES witness Lesser stated if AEP Ohio ordinarily had a total after tax return of $440.4 million at 11.15%, but was allowed to keep a net $108.6 million (after expenses and taxes) in OSS, then AEP Ohio will earn $549 million.[53] This implies a ROE of 15.13%, which is much higher than the ROE suggested by AEP Ohio using its formula model. All of AEP Ohio's OSS revenues, as identified and calculated by Staff, should be included as a credit against capacity costs.

AEP Ohio argues there was little disagreement that the Company's SSO base generation rates, in the aggregate, recover costs from non-shopping customers in an amount comparable to the proposed cost-based capacity charge before any energy credit offset.[54] This statement is preposterous. AEP Ohio did not conduct any cost of service

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51 Direct Testimony of Jonathan A. Lesser, FES Ex. 103 at 46.

52 *Id*.

53 FES Ex. 103 at 50.

54 Ohio Power Company's Initial Brief at 35.

study to unbundle the base generation rate, which contains bundled energy, capacity, and ancillary services.[55] Other than offering opinions, AEP Ohio provided no credible analysis, study or evidence to back up the statement that its non-shopping customers are paying $355/MW-Day for capacity.[56]

AEP Ohio attempts to corroborate the point that its capacity component of the SSO base generation rate is comparable to the Company's proposed $355.72/MW-Day cost-based capacity rate using the testimony of RESA witness Ms. Ringenbach.[57] However, Ms. Ringenbach was asked to *assume* that if the capacity component of the SSO base generation rate was comparable to $355.72/MW-Day then would she agree that it would be appropriate to charge CRES providers that same rate to ensure there is no subsidy. Having Ms. Ringenbach agree after making that assumption does nothing to support or advance AEP Ohio's position. Ms. Ringenbach would have testified the same way if the question had her assume that SSO customers pay $146.41/MW-Day. AEP Ohio failed to present any evidence to support its claim that SSO customers pay AEP Ohio $355.72/MW-Day.

Non-shopping customers pay for fuel through the fuel adjustment clause, which recovers AEP Ohio's energy costs both fuel and non-fuel.[58] The Company's ESP SSO

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[55] Tr. Vol. I at 64-65, 68-70.

[56] *Id*.

[57] Tr. Vol. IV at 815.

[58] Tr. Vol. I at 65-66.

rates are not cost based and the Company did not identify any specific capacity costs or credits in its rates.[59]

AEP Ohio argues in its brief that EVA's approach overstates achievable gross energy margins during the June 2012 through May 2015 period by close to 200%. It claims that EVA failed to reflect how the Pool Agreement limits the extent to which gross margins are retained by AEP Ohio and are available to support an energy credit. Specifically, AEP Ohio argues that EVA improperly assumed that the energy margins it imputes to non shopping SSO load would be retained by 100% and should be used to offset cost of capacity used to serve CRES providers. AEP Ohio claims, as a result, that EVA improperly converted the member load ratio ("MLR") from 40% to 92%. That argument misunderstands and misapplies the methodology Staff employed to calculate the energy credit.

Staff witness Harter testified that, under his analysis, EVA is retaining 40% of the margin from OSS and 100% of the margin from SSO sales in Ohio.[60] In regard to the retained percentage imputed to retail sales, the EVA model assumes that the locational marginal price ("LMP") approximates the retail price.[61] This is a conservative approach because the combination of the FAC and the energy portion of the base generation rate

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59 *Id*. at 68.

60 Tr. Vol. IX at 1912.

61 *Id*.

was in excess of the market price he used to estimate the credit from non-shoppers.[62]

AEP Ohio witness Meehan, who accepted as true and accurate all of AEP Ohio's information with respect to its generating fleet, was hired for the narrow scope and purpose of criticizing Staff witnesses Medine and Harter on their methodology, analysis, and results.[63] Mr. Meehan did not conduct any independent analysis or review of anything AEP Ohio did in this case for its capacity rate methodology, analysis, or results. Mr. Meehan simply accepted everything AEP Ohio did, and that was provided to him, in this case. In fact, in regard to the fuel cost estimates provided to him by AEP Ohio for the time period of the analysis, Mr. Meehan did not confirm that data against non AEP data.[64] Mr. Meehan said, "I'm relying on AEP to provide and support independent cost data."[65] Mr. Meehan further testified that he relied on Mr. Nelson for all the units' specific operating characteristics.[66] This includes the heat rates for those units.[67]

In addition, here is a list of things Mr. Meehan did not examine: (1) how the AEP pool operating agreement would impact the realization of these margins by AEP Ohio, (2) whether or how a portion of any energy margin should be applied to sales to non-shopping customers, and (3) potential ancillary service margins or report the energy

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62 *Id*. at 1913.

63 AEP Ohio Ex. 144 at 4-6.

64 Tr. Vol. XII at 2688, 2771.

65 *Id*. at 2688.

66 *Id*. at 2707.

67 *Id*. at 2761.

credit in any measure except total dollars.[68] It is clear from his testimony Mr. Meehan holds a different view than Staff's witnesses as to what method should be used to forecast market prices to calculate an energy credit. Mr. Meehan prefers current forward prices to forecast prices rather than a model forecast.[69] Mr. Meehan accepts forward prices at face value for his analysis, while recognizing that forward prices change by the hour and day.[70] Mr. Meehan quantifies gross energy margins differently than EVA. He uses a different methodology, heat rates, etc., that EVA finds inferior in comparison to the quality and accuracy of its approach and analysis.

Contrary to AEP Ohio's characterization, EVA's methodology is not a black box model. Both Mr. Harter and Ms. Medine worked together as a team in gathering the input data, operating the Aurora model, and analyzing the aggregated outputs and results. Mr. Harter is EVA's resident expert in running the Aurora model.[71] Ms. Medine testified that she was the better witness for the inputs and aggregations.[72] Ms. Medine is an expert fuel analyst.[73] EVA properly calibrated the model through running the model "hot" using updated forecasts and pricing information, and a sensitivity test.[74] And no impact was

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68 AEP Ohio Ex. 144 at 5-6.

69 *Id*. at 14-15.

70 Tr. Vol. XII at 2757.

71 Tr. Vol. X at 2117.

72 *Id*.

73 *Id*. at 2139.

74 *Id*. at 2209-2211.

realized by EVA using the zonal rather than the nodal version for the AURORA modeling. As there was no evidence of a constrained market in the AEP East for EVA's zonal analysis and this was confirmed by the PJM Market Monitor.[75]

EVA did not err in forecasting LMP prices. Its forecast is more robust then AEP's use of forward prices. Staff demonstrated that significant changes frequently occur with forward market prices making it not reliable or accurate to forecast market prices.[76] "The height of arrogance," to quote Mr. Meehan, is NERA not admitting that any forecast analysis, using forward market prices, requires frequent updating due to the daily change and volatility in market prices.

As part of its FUELCAST services, EVA constantly updates its Aurora model with its ongoing short term and long term analysis of data regarding electricity, coal, natural gas, and emission allowances.[77] Forward price curves have a role EVA's analysis, in fact, they are a starting point. EVA's forecast incorporates expert intelligence of real world experience and granular transportation cost in delivery to plant affecting overall pricing.

AEP Ohio claims EVA understated fuel costs for the June 2012 through May 2015 ESP period. EVA did not change or manipulate any fuel cost data, which was

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75 *Id*. at 2282.

76 Tr. Vol. XI at 2417-2419; Tr. Vol. XII at 2768-2770.

77 Tr. Vol. X at 2157.

customized and reflected EVA's latest input assumptions, when operating and running its Aurora model for this engagement and analysis. Therefore, EVA committed no bias with its model results. Mr. Meehan, for example, testified that natural gas forwards have dropped considerably between March 16, 2012 and May 15, 2012.[78] Mr. Meehan further testified that he did not review any coal contracts for Gavin because he relied on AEP Ohio for cost data.[79] AEP Ohio witness Allen acknowledged that the short term energy outlook published recently by the U.S. Department of Energy states that the average delivered coal price is declining from 2011 to 2012, and again in 2013.[80] Mr. Meehan agreed under cross examination that fuel costs are very important to the analysis of gross margins.[81] He also agreed that if AEP Ohio is overstating fuel costs then his or AEP Ohio's gross margins would be understated.[82]

Also, EVA did not overstate market prices, using the AURORA model, as AEP Ohio claims. In comparison to EVA's model analysis here, AEP Ohio forecasted even higher market prices than EVA did, using the Aurora model, for its cost- based retrofit of the Big Sandy scrubber project in Kentucky.[83] EVA also accounted for operating constraints in its modeling. And EVA's efficient heat rate application was correctly used

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78 Tr. Vol. XII at 2686.

79 *Id*. at 2687.

80 Tr. Vol XI at 2428-2430.

81 Tr. Vol. XII at 2772.

82 *Id*. at 2771-2772.

83 Tr. Vol. XI at 2424-2425.

and applied for this analysis. Simply because AEP Ohio finds the results disadvantageous does not make EVA's method, analysis, and results wrong. AEP Ohio has failed to discredit Staff's energy credit analysis and regulatory offset application.

CONCLUSION

The $355.72/MW-Day capacity rate proposed by AEP Ohio is neither just nor reasonable and must be rejected by the Commission. Staff respectfully requests the Commission adopt RPM pricing for the state compensation mechanism, which has previously provided AEP Ohio with the ability to maintain reliability, attract capital investment, and earn a reasonable return on equity from 2007 through 2011. In the alternative, Staff requests the Commission adopt its capacity rate of $146.41/MW-Day. Staff's alternative capacity rate accounts for adjustments being made to AEP Ohio's cost based rate consistent with Ohio regulatory practices and principles, and provides an offset for profits made from both OSS and SSO sales. Both contribute to capacity costs. Staff's primary and alterative positions are reasonable and just. Both Staff positions compensate AEP Ohio and support the policies of competition and retail choice.

Respectfully submitted,

Ohio Attorney General Mike DeWine

William L. Wright
Section Chief, Public Utilities Section

/s/John H. Jones

John H. Jones
Steven L. Beeler
Assistant Attorneys General
Public Utilities Section
180 East Broad Street, 6th Floor
Columbus, OH 43215-3793

Phone: 614.466.4396
Fax: 614.644.8764
john.jones@puc.state.oh.us
steven.beeler@puc.state.oh.us

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Reply Brief** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by electronic mail, upon the following parties of record, this 30th day of May, 2012.

____/s/John H. Jones___________
John H. Jones
Assistant Attorney General

Parties of Record:

greta.see@puc.state.oh.us
jeff.jones@puc.state.oh.us
Daniel.Shields@puc.state.oh.us
Tammy.Turkenton@puc.state.oh.us
Sarah.Parrot@puc.state.ohio.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
Kim.Wissman@puc.state.oh.us
Hisham.Choueiki@puc.state.oh.us
Dan.Johnson@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
whitt@whitt-sturtevant.com
thompson@whitt-sturtevant.com
sandy.grace@exeloncorp.com
smhoward@vorys.com
cathy@theoec.org
dsullivan@nrdc.org
aehaedt@jonesday.com
dakutik@jonesday.com
haydenm@firstenergycorp.com
dconway@porterwright.com
cmoore@porterwright.com
jlang@calfee.com
lmcbride@calfee.com
talexander@calfee.com
todonnell@bricker.com
cmontgomery@bricker.com
lmcalister@bricker.com
mwarnock@bricker.com
gthomas@gtpowergroup.com
wmassey@cov.com
henryeckhart@aol.com
laurac@chappelleconsulting.net
cmiller@szd.com
ahaque@szd.com
gdunn@szd.com
mhpetricoff@vorys.com
Gary.A.Jeffries@dom.com
Stephen.chriss@wal-mart.com
dmeyer@kmklaw.com

mjsettineri@vorys.com
lkalepsclark@vorys.com
bakahn@vorys.com
terrance.mebane@thompsonhine.com
cmooney2@columbus.rr.com
drinebolt@ohiopartners.org
trent@theoec.org
nolan@theoec.org
gpoulos@enernoc.com
emma.hand@snrdenton.com
doug.bonner@snrdenton.com
clinton.vince@snrdenton.com
sam@mwncmh.com
joliker@mwncmh.com
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
myurick@cwslaw.com
jejadwin@aep.com
dweiss@aep.com
rsugarman@keglerbrown.com
bpbarger@bcslawyers.com
holly@raysmithlaw.com
barthroyer@aol.com
philip.sineneng@thompsonhine.com
carolyn.flahive@thompsonhine.com
fdarr@mwncmh.com
msmalz@ohiopovertylaw.org
jmaskovyak@ohiopovertylaw.org
yalami@aep.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
Jeanne.Kingery@duke-energy.com
zkravitz@taftlaw.com