EXHIBIT NO. ______

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	
Ohio Power Company to Establish	)	
A Competitive Bidding Process for	)	Case No. 12-3254-EL-UNC
Procurement of Energy to Support its	)	
Standard Service Offer	)	

DIRECT TESTIMONY
OF
DAVID M. ROUSH
ON BEHALF OF
OHIO POWER COMPANY

Filed: June 14, 2013

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DAVID M. ROUSH

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ON BEHALF OF
OHIO POWER COMPANY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is David M. Roush. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

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

A. I am employed as Director - Regulated Pricing and Analysis for 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 (OPCo), referred to as AEP Ohio or the Company.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I graduated from The Ohio State University (OSU) in 1989 with a Bachelor of Science degree in mathematics with a computer and information science minor. In 1999, I earned a Master of Business Administration degree from The University of Dayton. I have completed both the EEI Electric Rate Fundamentals and Advanced Courses. In 2003, I completed the AEP/OSU Strategic Leadership Program.

In 1989, I joined AEPSC as a Rate Assistant. Since that time I have progressed through various positions and was promoted to my current position of Director – Regulated Pricing and Analysis in June 2010. My responsibilities include the oversight of the preparation of cost-of-service and rate design analyses for the AEP System operating companies, and oversight of the preparation of special contracts and pricing for customers.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY PROCEEDINGS?

A. Yes. I have submitted testimony before the Public Utilities Commission of Ohio (Commission), the Indiana Utility Regulatory Commission, the Michigan Public Service Commission, the Public Service Commission of Kentucky and the Public Service Commission of West Virginia regarding cost-of-service, rate design and other rates and tariff related issues.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to discuss the Standard Service Offer (SSO) rate issues related to AEP Ohio's energy-only auctions that have been identified as areas of dispute in party comments on the Company's Application and Supplement to Application. Specifically, I address certain issues related to auction pricing and customer retail rates.

Q. WHAT EXHIBITS ARE YOU SPONSORING?

A. I am sponsoring the following exhibit:

Exhibit DMR-1 Illustration of a Single Rider Computation

STANDARD SERVICE OFFER

Q. PLEASE SUMMARIZE THE CURRENT BYPASSABLE COMPONENTS OF A STANDARD SERVICE OFFER CUSTOMER'S BILL.

A. Currently, standard service offer customers pay the following bypassable charges to AEP Ohio for service:

Fuel Adjustment Clause Rider (FAC)
Alternative Energy Rider (AER)
Transmission Cost Recovery Rider (TCRR)
Base Generation Rates

Of these four elements, the three riders – FAC, AER and TCRR – are based upon specific, separately-identifiable costs incurred and recorded by the Company and are tracked and reconciled through the Company's periodic update and true-up filings with the Commission. The fourth element, Base Generation Rates, were initially established through the unbundling process in the Company's 1999 Electric Transition Plan cases and were subsequently adjusted based upon percentage adjustments in several proceedings, including the Company's most recent Electric Security Plan (ESP) case. While those rates may have originally been based upon cost data in the Company's prior rate cases in the early 1990s, it is no longer appropriate to consider those rates as "traditional" cost-of-service based rates because such a context no longer exists in Ohio. For example, there has been no cost-of-service study performed with respect to those rates, no evaluation of interclass subsidies or any other "traditional" analysis associated with establishing rates based upon cost of service.

Q. ARE THE COMPONENTS OF THE COMPANY'S STANDARD SERVICE OFFER RATES SUBDIVIDED IN A MANNER THAT IS COMPARABLE TO WHOLESALE MARKET PRODUCTS?

A. No. The basic elements of the PJM wholesale market are generation capacity, generation energy, transmission service and ancillary services. While transmission service is cost-of-service based, the remaining components are primarily established through FERC-regulated market mechanisms. The PJM construct is significantly different from both traditional cost-of-service rates and rates set through an ESP in Ohio that are subject to the statutory market rate offer test. For example, the Company's Base Generation Rates can be viewed as the result of a simple arithmetic calculation:

Total generation and transmission rates
- FAC
- AER
<u>- TCRR</u>
= Base Generation Rates

When viewed from this simple perspective, it is evident that Base Generation Rates conceptually include items such as commercial activity taxes and the cost of uncollectibles associated with costs that are billed in the FAC, AER and TCRR, since those riders are not grossed-up and merely pass through incurred costs. More generally, there is no reasonable basis to conclude that Base Generation Rates reflect energy-related costs or should fluctuate based on the energy auction process, since the Company (as the Fixed Resource Requirements entity through May 2015) is still providing capacity service to SSO customers without change throughout the delivery period of all three energy-only auction periods. It would unfairly take ESP revenues from the Company to reduce Base Generation Rates just to ensure that the energy-only auctions result in rate decreases as has been argued by some commenters. As a related matter, I have been advised by counsel that the Commission's ESP decision determined that retail SSO generation service is a bundled generation service that is different from the wholesale capacity service provided to CRES providers in support of retail shopping. While I am not testifying as to the ultimate meaning of the Commission's orders, my testimony incorporates the Company's legal positions regarding such matters. Thus, it is erroneous to equate Base Generation Rates with generation capacity.

Q. WILL THE RESULTS OF THE ENERGY AUCTIONS BE REFLECTED IN THE STANDARD SERVICE OFFER RATES THAT NON-SHOPPING CUSTOMERS PAY?

A. Yes. Under AEP Ohio's proposal, the energy purchases resulting from the energy-only auctions will appropriately displace energy costs that would otherwise be recovered through the Company's Fuel Adjustment Clause, in proportion to the amount of SSO energy being purchased in each of the energy-only auctions. As further explained below, Base Generation Rates will be frozen through the end of 2014, and be adjusted to reflect capacity at $188.88 /MW-day for the January through May 2015 period. The AER and TCRR would also continue to periodically adjust during the entire period. Next, I will discuss each of these SSO rate components in more detail.

BASE GENERATION RATES

Q. WHEN WILL THE COMPANY ADJUST ITS BASE GENERATION RATES?

A. I have been advised by counsel that the Commission's ESP decision determined that the Company's Base Generation Rates should remain fixed at the levels proposed by the Company until January 1, 2015. In this same regard, counsel further advised me that the issue of whether AEP Ohio's frozen Base Generation Rates should be reduced prior to January 1, 2015 to reflect the lower capacity charge adopted in Case No. 10-2929-EL-

UNC was already litigated and the Commission decided not to do so as part of adopting the Modified ESP. While I am not testifying as to the ultimate meaning of the Commission's orders, my testimony incorporates the Company's legal positions regarding such matters. As a separate matter distinct from the legal positions, I can attest that the Company's approach is also consistent with the traditional ratemaking treatment of power purchases in the FAC, wherein the total FAC would change to reflect the power purchases but the existing non-energy related component of the FAC and Base Generation Rates would not. Consequently, the Company proposes to continue charging its current Base Generation Rates until January 1, 2015 when those rates will be adjusted to reflect capacity at $188.88 /MW-day.

Q. HOW DOES THE COMPANY PROPOSE TO IMPLEMENT THE ADJUSTMENT TO BASE GENERATION RATES TO REFLECT CAPACITY AT $188.88 /MW-DAY BEGINNING JANUARY 1, 2015?

A. During the Company's most recent ESP proceeding, concerns were raised regarding potential impacts of auction rate design on certain classes of customers, such as CSP Rate Zone residential customers with high winter use. While the Company does not believe that implementation of this Base Generation Rate adjustment process on January 1, 2015 is necessarily ripe for review in this case, I can make some simplifying assumptions and offer an illustrative approach without prejudice to the ultimate approach to be subsequently taken on this issue. For purposes of this discussion, I think the most straightforward approach to ensure that all customers benefit from this ESP-required adjustment would be to uniformly reduce the Base Generation Rates for all customers by 40%. This 40% reduction, which was computed by applying the $188.88 /MW-day directly to Company load information filed in the ESP proceeding, would reduce overall Base Generation Rates from \$22.50/MWh to \$13.50/MWh. This approach would maintain the existing relationships among the Base Generation Rates for all customers. This approach would be a reasonable transition step towards the expected rates based entirely upon a full requirements auction beginning in June of 2015. In fact, this component alone would drive significant customer bill reductions beginning in January 2015. For residential customers using 1,000 kWh of electricity per month, the reduction resulting from reduced Base Generation Rates would be \$10.28 per month for a CSP rate zone customer and \$10.75 per month for an OP rate zone customer.

AUCTION PHASE-IN RIDER AND THE FUEL ADJUSTMENT CLAUSE

Q. WHY IS AEP OHIO PROPOSING TO SEPARATE THE COSTS WITHIN THE FAC INTO TWO COMPONENTS?

A. The Company is proposing to separate the costs within the FAC to provide transparency and comparability with the energy-only auction product. However, should the Commission desire to maintain a single rider, these same goals could still be accomplished as long as each of the two components are treated properly as shown in Exhibit DMR-1. Since its initial implementation, the FAC has included a specifically identified set of cost items which include fuel, purchased power costs (a portion of which are fixed demand charges), and other variable production costs such as environmental variable costs. In the ESP decision, the Commission continued the FAC mechanism without modifying the type of costs that have long been recovered under the FAC, including the demand charges associated with purchased power contracts. The cost items that constitute the FAC, as identified in Exhibit F of the Supplement to Application, are well established and have been tracked, reconciled and audited annually in proceedings before this Commission. As part of the Competitive Bid Process, the Company will procure a defined product which is an energy-only product. Therefore, it is necessary to evaluate the FAC and identify those items which are energy (variable) costs and those items which are non-energy (fixed) costs. Since the auction product is an energy product, the costs that the Company is replacing with purchases of that energy product are the energy (variable) costs in the FAC. This approach is consistent with the recovery of non-energy (fixed) costs that has occurred when the Company has made market purchases to serve its retail customers since the FAC was instituted. Doing otherwise would improperly eliminate recovery of costs approved for continued recovery through the FAC.

Q. WHAT TREATMENT HAS THE COMPANY PROPOSED WITH RESPECT TO THE NON-ENERGY (FIXED) COST COMPONENT OF THE CURRENT FAC?

A. The Company has proposed to separate the non-energy (fixed) costs and include them in a new, bypassable Fixed Cost Rider. These costs have always been bypassable and would continue to be avoidable for customers that elect to take service from a Competitive Retail Electric Service (CRES) provider. However, these non-energy costs primarily relate to contractual commitments by the Company to purchase power from Ohio Valley Electric Corporation and AEP Generating Company (Lawrenceburg Generating Plant) which are used to fulfill the Company's obligation to provide a Standard Service Offer to non-shopping customers and should continue to be collected from non-shopping customers. These costs are clearly not part of the Company's Base

Generation Rates, have been recognized as prudent costs to be collected from Ohio customers in the FAC, and are actual costs incurred by the Company that are passed through to customers without any return for the Company. To not allow the Company to collect these costs, as suggested in parties' comments, is inconsistent with the ESP decision's authorization to continue the FAC. I have also been advised by counsel that any disallowance of cost recovery for these FERC-approved contracts, which have long been dedicated to support retail SSO service in Ohio, would unlawfully trap costs in violation of federal law. While I am not testifying as to those legal issues, my testimony incorporates the Company's legal positions regarding such matters.

Q. WHAT TREATMENT HAS THE COMPANY PROPOSED WITH RESPECT TO THE ENERGY (VARIABLE) COST COMPONENT OF THE CURRENT FAC?

A. The Company has proposed to separate the energy (variable) costs and include them in a new, bypassable Auction Phase-In Rider. The Auction Phase-In Rider will also include the costs of the Auction Purchases and as well as the levelized costs associated with conducting the Competitive Bid Process as detailed in Exhibit H of the Company's February 11, 2013 Supplement to Application.

Q. HOW WILL THE AUCTION PHASE-IN RIDER BE COMPUTED?

A. The revenue requirement will be the sum of the energy (variable) cost component of the FAC for the MWhs of energy that are not auctioned, the auction purchase cost for the MWhs of energy that are auctioned and the levelized cost of performing the auction. This revenue requirement will be divided by total non-shopping MWh and adjusted for losses to determine the rate at each delivery voltage, consistent with how the FAC is determined currently. To mitigate any potential customer bill impact concerns, the current differentiation of FAC rates between the Columbus Southern Power and Ohio Power Rate Zones can be maintained in the Auction Phase-In Rider through December 2014. Therefore, there would be no need to conduct separate Competitive Bid Processes for each rate zone. Once 100% of the energy is auctioned beginning January 1, 2015 and none of the Auction Phase-In Rider rate is based upon the energy (variable) cost component of the FAC, such a rate zone differentiation would no longer have a historical basis or be meaningful.

Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSALS WITH REGARD TO THE FIXED COST RIDER AND AUCTION PHASE-IN RIDER.

A. The current FAC would be separated into two components. The non-energy (fixed) component will become a new Fixed Cost Rider and the energy (variable) component will become part of a new Auction Phase-In Rider. The following diagram was included in Exhibit G of the Company's February 11, 2013 Supplement to Application.

<table>
<tr><th colspan="2">Existing</th><th colspan="2">Proposed</th></tr>
<tr><th>Rider</th><th>Components</th><th>Components</th><th>Riders</th></tr>
<tr><td rowspan="2">FAC</td><td>Non-Energy (Fixed)</td><td>Non-Energy (Fixed)</td><td>Fixed Cost Rider</td></tr>
<tr><td>Energy (Variable)</td><td>Energy (Variable)</td><td rowspan="3">Auction Phase-In Rider</td></tr>
<tr><td></td><td></td><td>Auction Purchase</td></tr>
<tr><td></td><td></td><td>Auction Costs</td></tr>
</table>

If the Commission prefers to maintain a single rider and achieve the same goals, the Company is also amenable to that approach and I have illustrated that approach in Exhibit DMR-1.

ADDITIONAL CUSTOMER RATE IMPACT MITIGATION

Q. DOES THE COMPANY HAVE A RECOMMENDATION TO ADDRESS THE CONCERNS RAISED IN PARTIES' COMMENTS REGARDING ANY POTENTIAL ADVERSE IMPACT OF THE ENERGY AUCTIONS ON CUSTOMERS?

A. Yes. In addition to the rate mitigation components of the Company's proposal discussed above, the Company recommends that the 12% rate cap instituted by the Commission in the ESP decision be applied to any potential increases resulting from the implementation of the Auction Phase-In Rider and Fixed Cost Rider. This would further address the concerns raised by the parties with respect to the auction results and is consistent with the Commission's desire to maintain protection for customers from any unforeseen risks that may arise from a developing competitive market, as expressed by the Commission on page 11 of the January 30, 2013 Entry on Rehearing in the Company's ESP. From an implementation standpoint, the sum of the Auction Phase-In Rider and the Fixed Cost Rider would be compared to the current FAC rate as of June 2013. An increase, if any, would then be included in the determination of whether the customer's bill has reached the cumulative 12% rate cap and, if so, handled in the same manner already prescribed by the Commission for rate impacts under the ESP rate plan as a whole. Indirectly, this approach would also protect customers from increases in the FAC.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes it does.

Exhibit DMR-1

Illustration of a Single Rider Computation
60% Auction

Line / Formula (A)	Description (B)	Energy Percentage (C)	Generation Level Energy (MWh) (D)=Total x (C)	Illustrative Costs ($ / MWh) (E)	Company's Proposal: Auction Phase-In Rider (F) = (D) x (E)	Company's Proposal: Fixed Cost Rider (G)	**Single Rider** (H) = (F) + (G)
(1)	FAC Non-Energy (Fixed) Costs	0%	-		$ -	$ 8,000,000 2/	$ 8,000,000
(2)	FAC Energy (Variable) Costs	40%	800,000	$ 40	$ 32,000,000		$ 32,000,000
(3)	Auction Purchase Costs	60%	1,200,000	$ 40	$ 48,000,000		$ 48,000,000
(4)	Auction Costs	0%	-		$ 122,737 1/		$ 122,737
(5)= (1)+(2)+(3)+(4)	Total Revenue Requirement	100%	2,000,000	0	$ 80,122,737	$ 8,000,000	$ 88,122,737
(6)	Generation Level Energy (MWh)				2,000,000	2,000,000	2,000,000
(7) = (5) / (6)	Revenue Requirement ($/MWh)				40.06	4.00	44.06

1/ Estimated Costs from Exhibit H of the Company Supplement to Application = $2,332,000 / 19 months = $122,737
2/ Approximate value for recent months

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of Ohio Power Company's Direct Testimony of David M. Roush has been served upon the below-named counsel by electronic mail to all Parties this 14th day of June, 2013.

/s/ Steven T. Nourse
Steven T. Nourse

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