EXHIBIT NO
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# BEFORE

# THE PUBLIC UTILITIES COMMISSION OF OHIO

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)	Case No. 05-376-EL-UNC
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DIRECT TESTIMONY OF GARY O. SPITZNOGLE ON BEHALF OF OHIO POWER COMPANY

Filed: October 23, 2014

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# BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO DIRECT TESTIMONY OF GARY O. SPITZNOGLE ON BEHALF OF OHIO POWER COMPANY

# 1 PERSONAL DATA

# 2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Gary O. Spitznogle. My business address is 850 Tech Center Drive, Gahanna,
Ohio, 43230.

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

A. I am employed by Ohio Power Company (OPCo), dba AEP Ohio (the Company), a unit of
American Electric Power (AEP). My title is Vice President, Regulatory and Finance. I am
responsible for regulatory operations, regulated electric pricing, and financial performance
related to AEP Ohio. I report directly to AEP Ohio's President and Chief Operating Officer.

# 10 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL

# 11 BACKGROUND.

12 A. I earned a Bachelor of Science degree in chemical engineering with an environmental option in

13 1998 from The Ohio State University. I began my career with AEP Ohio in 1997 as an

14 environmental technician at the Conesville Generating Station. I served at Conesville until

- 15 2001 when I accepted a position as a lead engineer in Engineering Services at AEP Service
- 16 Corporation (AEPSC). At AEPSC, I served in several other engineering positions before
- being named Manager of Air Emissions Optimization in 2002. I was promoted to Manager of
- 18 New Generation Development in 2006, and then Manager of Integrated Gasification

1 Combined Cycle and Carbon Sequestration and Storage Engineering in 2008. In these roles I 2 was responsible for various technology development programs in support of emissions 3 compliance planning for our power generation fleet. Over the course of time, I became 4 increasingly involved in public policy efforts at the state and federal levels and with advisory 5 groups such as Coal Utilization Research Council, National Coal Council, and World 6 Resources Institute. I was also a technical subcommittee member for FutureGen Industrial 7 Alliance, an advanced IGCC program by the US Department of Energy. I advanced to the 8 position of Director of New Technology Development and Policy Support in 2010 before 9 assuming my current role in 2013. 10 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY** 11 **PROCEEDINGS?** 12 Yes. I have filed testimony in support of the Company's Stipulations in Case No. 12-3255-Α. 13 EL-RDR and direct testimony in Case Nos. 13-2249-EL-UNC, 13-2250-EL-UNC, 13-2251-14 EL-UNC, and 13-2385-EL-SSO. I also presented written and oral testimony before the United 15 States House of Representatives Select Committee on Energy Independence and Global 16 Warming on July 28, 2009. The Select Committee was established to investigate new energy 17 technologies with the goal of achieving energy independence while reducing or eliminating 18 emission of greenhouse gases.

#### 19 PURPOSE OF TESTIMONY

#### 20 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to explain the issues that need to be addressed in this
proceeding and to summarize the testimony AEP Ohio will present to address those issues.
For my part, I will address the Ohio Supreme Court's ruling that the prior record in this case

1 was insufficient to support the Commission's finding that the costs associated with the 2 proposed 600 MW integrated gasification combined-cycle generation facility at the Great 3 Bend site in Meigs County, Ohio (the Great Bend IGCC project), including the pre-4 construction Phase I costs as well as the construction and operation costs of Phases II and 5 III, are properly recoverable as costs incurred in furtherance of the provider of last resort (POLR) obligation that the 1999 law restructuring the electric utility industry in Ohio, 6 7 S.B.3, imposed upon Columbus Southern Power (CSP) and OPCo (collectively, "the Companies" or "AEP Ohio").<sup>1</sup> I support AEP Ohio's position that the revenue already 8 9 recovered from customers through the previously approved Phase I surcharges should not be 10 subject to refund to the extent that the revenue recovered AEP Ohio's prudently incurred 11 pre-construction costs in Phase I of the Great Bend IGCC project. Collection of the Phase I 12 surcharges was completed in accordance with the Commission's original orders by July 13 2007.

# 14 Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?

A. Yes. I am sponsoring Exhibit GOS-1, which is a copy of the Companies' response to the
Office of the Ohio Consumers' Counsel request for information OCC 117, which was filed
in this proceeding on June 14, 2005.

# Q. WHAT IS YOUR UNDERSTANDING OF THE ISSUES TO BE ADDRESSED IN THIS PROCEEDING?

A. The primary issue to be addressed in this proceeding is whether any amount of revenue the
 Company collected from customers in 2006 and 2007 to recover the Phase I costs associated

<sup>&</sup>lt;sup>1</sup> OPCo and CSP merged at the end of 2011, with OPCo as the surviving entity.

1 with the Great Bend IGCC project should be refunded to customers in accordance with the 2 conditions imposed by the Commission when it approved the Phase I cost recovery. In its 3 June 28, 2006 Entry on Rehearing the Commission stated, as a first condition, that the Phase 4 I costs would be subject to a review of whether they were reasonably incurred. The 5 Commission also stated, as a second condition, that if AEP Ohio did not commence a continuous course of construction of the proposed facility within five years of the Entry on 6 7 Rehearing, all Phase I charges collected for expenditures associated with items that may be utilized in projects at other sites must be refunded to Ohio ratepayers with interest. Thus, in 8 9 anticipation of this proceeding, the Company conducted an internal audit of the Phase I 10 expenditures to confirm that the expenditures for which recovery was sought were reasonably incurred in connection with the Great Bend IGCC project and properly allocated 11 12 to the Great Bend site. In addition to the Company's own internal audit, the Commission Staff conducted a detailed review of the Phase I expenditures and recommended accounting 13 14 adjustments that the Company has already accepted and booked.

- 15 The following Company witnesses will provide testimony pertinent to the
- 16 conditional refund issue.

Company witness Duellman discusses the Phase I pre-construction tasks and activities and the reasonableness and prudence of the costs incurred by AEP
 Ohio to perform them. Mr. Duellman's testimony demonstrates that the costs that AEP Ohio expended on Phase I tasks and activities were reasonable and prudent. His testimony also explains why none of the items that resulted from Phase I tasks and activities are transferrable to projects at other sites.

Company witness Whitney describes in detail the internal audit that AEPSC performed in 2011 to review the costs incurred. She also will discuss her involvement with regard to the review of these costs that was performed by the Commission's Staff in 2012. Her audit report shows that the Company appropriately accounted for the costs of Phase I activities.

• Company witness Moore quantifies the amount of revenue that AEP Ohio collected through the Phase I surcharges, supports the appropriate rate design of the credit that should be used to refund amounts collected through the Phase I surcharges in excess of the costs that AEP Ohio reasonably incurred for Phase I, and also supports the appropriate interest rate to be used in connection with the amounts refunded.

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As noted above, my testimony also addresses the Ohio Supreme Court's ruling in this case.

# 8 **SUMMARY OF TESTIMONY**

# 9 Q. PLEASE PROVIDE A BRIEF SUMMARY OF YOUR TESTIMONY IN THIS 10 PROCEEDING.

11 A. My testimony is that the Company should return to customers \$3,669,926.30 of the revenue 12 it collected through the Phase I surcharges, plus interest in the amount of \$1,071,669.21, for 13 a total amount to be returned of \$4,741,595.51; in other words, the amount of the refund 14 should be limited to the difference between the amounts collected from customers related to 15 the Phase I surcharges and the amounts AEP Ohio and the Commission Staff determined 16 through their respective audit and review were properly charged to the Great Bend IGCC 17 project, plus interest. My opinion is based on the fact that the decision to evaluate the 18 possible construction of an IGCC facility was reasonable and prudent based upon the facts 19 known, and the assumptions that had to be made, in 2005. The key facts and necessary 20 assumptions - assumptions the Commission shared at the time - fully supported the 21 conclusion that AEP Ohio needed to evaluate the feasibility of building an IGCC facility as 22 a means for meeting its POLR obligation as it was known to exist in 2005 and expected to 23 continue into the future. The Commission approved the recovery of the Phase I costs for the 24 Great Bend IGCC project, and those costs were recovered through the Phase I surcharges in 25 2006 and 2007. Arguments that all the revenue collected through the Phase I surcharges

1 should now be refunded to customers are at odds with the Commission's Entry on 2 Rehearing and the very limited conditional refund described by the Commission in that 3 entry. In its Entry on Rehearing, the Commission established only two circumstances for a 4 refund. First, the Commission determined that Phase I costs would be subject to a 5 subsequent review to determine their reasonableness. Second, the Commission found that 6 "if AEP-Ohio has not commenced a continuous course of construction of the proposed 7 facility within five years of the date of issuance of this entry on rehearing, all Phase I 8 charges collected for expenditures associated with items that may be utilized in projects at 9 other sites, must be refunded to Ohio ratepayers with interest." As Company witnesses 10 Duellman and Whitney establish, there are no such expenditures included in the \$20.57 11 million of costs supported in this filing.

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## **SUPREME COURT OF OHIO RULING**

# 13 Q. WHAT IS YOUR UNDERSTANDING OF THE EFFECT OF THE SUPREME

#### 14 COURT'S RULING ON THE SCOPE OF THIS PROCEEDING?

15 A. On advice of counsel, it is my understanding that the Court recognized that an electric distribution utility (EDU), such as AEP Ohio, will incur noncompetitive costs associated 16 17 with the fulfillment of its POLR obligation and that the Commission may allow recovery of 18 an EDU's noncompetitive costs that are associated with its effort to secure competitive retail 19 electric service in furtherance of its statutory POLR obligation. The Court, however, was 20 concerned that the evidence in the earlier record in this proceeding did not support 21 permitting AEP Ohio to recover the costs associated with the proposed Great Bend IGCC 22 generation facility. The Court remanded the case so that the record could be supplemented 23 with additional evidence to show how the costs of pre-construction "research and

development", construction, and operation of the proposed Great Bend IGCC facility would 1 2 be incurred in furtherance of AEP Ohio's statutory POLR obligation. The Court indicated, 3 for example, that the record was incomplete in that no findings were made regarding the 4 amount of generation AEP Ohio needs to guarantee its Ohio distribution responsibilities or 5 the portion of the Great Bend IGCC facility costs that should be attributed to AEP Ohio's 6 POLR obligation versus the costs that should be recovered through competitive rates when 7 the facility begins generating electricity. The Court also directed the Commission to verify that AEP Ohio complied with the application requirements in R.C. 4909.18 and to address 8 9 compliance with the 75 percent used and useful standard in light of the fact that AEP Ohio had not begun construction of the generation facility.<sup>2</sup> 10

#### 11 **Q.**

# Q. HOW DOES YOUR TESTIMONY ADDRESS THE COURT'S CONCERNS?

12 My testimony summarizes the regulatory environment and the state of the electric industry A. 13 as it existed at the time the decision was made by AEP Ohio to embark on a path toward the 14 construction of the Great Bend IGCC facility. In addition, I will describe the key facts and 15 assumptions upon which the decision to proceed with the first, pre-construction, phase of the project (Phase I) was predicated. My testimony also will describe the scope of AEP 16 17 Ohio's POLR obligation as it existed in 2005-2006, the most relevant time frame in terms of 18 the Commission's April 10, 2006 Opinion and Order, and as it was projected to exist in and 19 after 2010, the time frame in which the facility, had it been constructed, would have begun 20 operation. My testimony also will explain how the Great Bend IGCC facility was intended 21 to enable the Companies to meet their statutory obligation to be the POLR for their

<sup>&</sup>lt;sup>2</sup> Industrial Energy Users-Ohio v. Pub. Util. Comm., 117 Ohio St.3d 486, 2008-Ohio-990, ¶¶ 32-33.

respective service territories. I will address why AEP Ohio was not able to go forward with
the construction and operation (Phases II and III) of the Great Bend IGCC facility and the
limited scope of the costs incurred for Phase I of the project, which were recovered during
the period July 1, 2006 through July 2, 2007. Finally, I will address the 75 percent used-anduseful standard to the IGCC project.

# 6 **<u>REGULATORY ENVIRONMENT AND STATE OF THE ELECTRIC INDUSTRY</u>**

# Q. WHAT WAS THE REGULATORY ENVIRONMENT AND STATE OF THE 8 ELECTRIC INDUSTRY IN OHIO IN 2005?

9 A. In 2005, the regulatory environment for the electric industry was in a state of flux and 10 uncertainty in Ohio. While the Ohio Legislature had made the decision in 1999, through the 11 enactment of S.B. 3, to substantially restructure the electric industry in Ohio with the goal of 12 moving toward retail competition in the generation component of retail electric service over a five-year market development period, considerable uncertainty and concern arose prior to 13 14 the end of that five-year period that the market had not developed to the point where the 15 new competition-based model would be capable of providing reliable generation service at 16 reasonable rates. In particular, market prices for wholesale electric generation supplies were 17 relatively high and unstable. This had the effect of discouraging customers from switching 18 from the default standard service offer (SSO) generation services offered by regulated EDUs 19 to services offered by competitive retail electric service (CRES) providers.

Aside from the very different regulatory environment that we were experiencing in 2005, the energy and electricity markets were in very different places as well. In order to 22 have an accurate look at what was known in 2005, I reviewed the U.S. Energy Information

Administration's 2005 Annual Energy Outlook,<sup>3</sup> which provides a detailed overview of the 1 2 energy industry. A few interesting points that I found in the Overview of that report are as follows: 1) The U.S. economy was projected to grow at an average annual rate of 3.1% from 3 4 2003 to 2025; 2) The world oil price was estimated to grow slowly from 2010 to 2025, with 5 the 2025 price estimated to be \$30.31 per barrel; 3) 87 gigawatts of new coal-fired capacity 6 were forecasted to be constructed between 2004 and 2025; 4) As 2025 approached, less 7 natural gas-fired generation would be added because of the projected rise in natural gas prices; and 5) While U.S. consumption of natural gas was projected to grow, much of the 8 9 increased supply was expected to come from Alaska and increased imports of liquefied 10 natural gas. Shale gas production and terms like "fracking" were not part of general public 11 vernacular. In fact, the real surge in shale gas production did not start until 2006. Between 12 2005 and 2010 the country's shale-gas industry grew by 45% per year. As a proportion of America's overall gas production, shale gas was at 4% in 2005 versus 24% in 2012<sup>4</sup>. All of 13 these facts point to a situation in 2005 where an IGCC generating facility was a sound 14 15 decision: natural gas was not anticipated to become significantly more abundant and 16 inexpensive, coal was still seen as a major factor with respect to the addition of new 17 generating capacity, and it was anticipated that the economy would continue to grow at a 18 healthy pace. Even the federal government was strongly committed to IGCC technology, 19 pledging \$1 billion to FutureGen, an advanced IGCC power plant project, in 2003 and was 20 still fully supportive of that goal in the 2005-2007 timeframe. On top of these realities, talk

<sup>&</sup>lt;sup>3</sup> U.S. Energy Information Administration, 2005 Annual Energy Outlook, With Projections to 2025, *available at* http://www.eia.gov/forecasts/archive/aeo05/pdf/0383(2005).pdf.

<sup>&</sup>lt;sup>4</sup> "Shale of the Century, The "golden age of gas" could be cleaner than greens think". *The Economist*. June 2, 2012, *available at* <u>http://www.economist.com/node/21556242</u>

1 of a national cap and trade program for  $CO_2$  emissions was gaining momentum by 2005 and 2 the need for coal-based technology solutions was the focus of energy planners and industry 3 groups both domestically and abroad. It was not until June of 2009 that we saw passage in 4 the US House of Representatives of the American Clean Energy and Security Act, also 5 known as the Waxman-Markey Bill, and even then a large component of that language was 6 predicated on implementation of advanced coal technologies with  $CO_2$  controls. While 7 economic and industry conditions have changed a great deal since 2005, knowing what we 8 knew then, constructing an IGCC generating facility was a reasonable option at that time.

# 9 Q. HOW DID THE ENVIRONMENT IN 2005 IMPACT AEP OHIO AND ITS NEED

# 10 FOR GENERATION TO GUARANTEE ITS OHIO DISTRIBUTION

#### 11 **RESPONSIBILITIES?**

12 A. Lack of customer shopping was a particularly pronounced fact for the CSP and OPCo service territories. The Companies' SSO generation service rates were substantially below 13 14 market rates throughout their market development periods and at the time that they 15 submitted their application in this case. As a result, there was only about 3 percent customer 16 shopping in CSP's service area and none in OPCo's service area, which meant that at the 17 time of their application in this case in early 2005, nearly all of the Companies' customers 18 obtained generation service from the Companies' SSO. There were only three CRES providers certified to serve customers in the Companies' service areas. Moreover, only one 19 20 was actually serving customers and that provider did not offer service to residential 21 customers. These stark facts meant, of course, that in 2005 the Companies' obligation to 22 provide a firm supply of reliable power, an obligation flowing from their status as EDUs

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and, thus, the providers of last resort in their certified territories, was for all practical purposes no less than their obligation under traditional regulation.

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3 When this case was filed and the evidence presented, CSP and OPCo assumed that 4 they had to be prepared to provide a firm supply of safe and reliable electric service to all 5 customers within their service territories. As a result, the amount of generation supply that 6 AEP Ohio anticipated needing in 2005 and 2006 to guarantee its POLR obligation was in 7 the range of its peak system load, which was 9,614 MW in August 2005. The 600 MW 8 proposed Great Bend IGCC facility would therefore have constituted approximately 6% of 9 the anticipated POLR obligation, based on that August 2005 peak. And beyond even its 10 total customer load, the Companies were also required to consider the proportion of 11 Percentage of Income Payment Plan (PIPP) customers, who could not shop under Ohio law. 12 Based on PUCO Form MM1.2 for the months from January through December 2006, the Companies had sales of 909,658 MWh to this class of non-shopping customer. If the 13 Companies were to have constructed an IGCC facility with a capacity factor of 80%, 14 15 consistent with cost analysis data included in the 2005 Application, just the sales to PIPP 16 customers alone would have accounted for almost 22% of the output of the planned IGCC 17 plant.

Moreover, the probability at that time was high that a substantial portion of the Companies' customers might not shop for some time into the future, and those who did shop might elect to return to the Companies for their electric generation service. The assumption had to be that AEP Ohio would need a substantial level of generation to guarantee its POLR obligation through 2010, and as described in the Companies' response to OCC 117, which is 1

included as Exhibit GOS-1, there could be no expectation that previously existing generation would be allocated to POLR load absent a change in law.

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3 While the Commission's decision to allow recovery in 2006 of AEP Ohio's Phase I 4 costs of the Great Bend IGCC project should be evaluated by the facts as they existed at the 5 time, it is now known that the shopping level for the Company in March of 2008, when the 6 Company decided to put a hold on the project, was less than 1%. The shopping level for 7 First Energy, the EDU with the greatest level of shopping in March of 2008 was just under 8 14% - a clear indicator that shopping had not yet matured and the POLR obligations of the 9 EDUs to serve non-shopping customers required them to serve the majority, if not all, of 10 their load, as in the Companies' case. The Companies' level of shopping remained under 11 10% through 2010 and did not pass the 30% level until the end of 2011, which means, of 12 course, that AEP Ohio continued to need much more than 600 MW of generation to guarantee its Ohio POLR obligation as a distribution utility. Even today, when the shopping 13 14 level is at 66%, AEP Ohio's Ohio POLR obligation would require much more than 600 MW 15 of generation. In fact, the highest shopping level for any Ohio EDU as of June 2014 was approximately 85%. If applied to AEP Ohio's August 2005 peak load of 9,614 MW this 16 17 would still leave the Company with 1,433 MW of customer load to serve – much greater 18 than the 600MW associated with the proposed Great Bend IGCC.

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# Q. HOW DID THE COMPANIES ADDRESS THESE CONCERNS IN 2005?

A. The Companies addressed these concerns, in part, by submitting, as requested by the Commission, a rate stabilization plan (RSP) in Case No.04-169-EL-UNC that would be in effect during the period 2006 through 2008. The purpose of that plan was to provide rate stability while allowing additional time for the competitive generation market to develop before the Companies would offer SSOs based on wholesale market prices. In approving the Companies' RSP, the Commission's Opinion and Order, at page 37, stressed that during the rate stabilization period and thereafter, "AEP will be held forth as the POLR to consumers who either fail to choose an alternative supplier or who choose to return to AEP's system after taking service from another energy company. Consistent with Ohio law, the POLR designation places expectations on EDUs; the companies must have sufficient capacity to meet unanticipated demand."

The Companies recognized the significance of S.B.3's statutory POLR obligation 8 9 and their duty to stand ready to provide a firm supply of reliable power to all non-shopping 10 or returning customers. It was the Companies' understanding that the restructuring law had 11 not obviated their need to maintain access to the generation resources necessary to support 12 the reliable operation of their distribution systems and to ensure a firm supply of generation service for all customers not served by competitive providers. As described in the 13 14 Companies' Application filed on March 18, 2005, "The Companies believe[d] that 15 construction of an IGCC facility presents an economical and environmentally effective 16 option for their long-term fulfillment of their POLR obligation. This is particularly true in light of natural gas fuel price projections and volatility, and increasingly restrictive 17 18 environmental requirements for existing and future coal-fired generation which must be 19 anticipated as a matter of prudent planning, including, for example, the potential of 20 significant capital expenditures related to retrofitting traditionally built pulverized coal fired generating facilities."<sup>5</sup> 21

<sup>&</sup>lt;sup>5</sup> In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Recover Costs Associated with the Construction and Ultimate Operation of an Integrated Gasification Combined Cycle Electric Generating Facility. Page 3 of 14.

- 1 The Commission had also determined that there was a need to explore an alternative.
  - such as that provided by the IGCC technology, as a means of ensuring the Companies'
- 3 ability to discharge their POLR obligations. At the conclusion of its RSP Order it stated:
- With the recognition that new technologies must be forthcoming to replace the utilities' aging generation fleet, we urge AEP to move forward with a plan to construct an integrated gasification combined-cycle (IGCC) in Ohio . . . We are encouraged by emerging information that suggests IGCC technology will be economically attractive. It is worth noting that the Commission is exploring regulatory mechanisms by which utilities, given their POLR responsibilities, might recover the costs of these new facilities.
- 11 THE GREAT BEND IGCC PROJECT APPLICATION

# 12 Q. CAN YOU DESCRIBE MORE FULLY HOW THE PROPOSED GREAT BEND

# 13 IGCC FACILITY WAS INTENDED TO SUPPORT THE COMPANIES' POLR

14 **OBLIGATION?** 

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15 A. An electric distribution utility can satisfy its POLR obligation in different ways, other than by the construction, ownership, and operation of new facilities. Those options include spot 16 17 market purchases and long term bilateral contracts, among other things. But all of these 18 options come with varying degrees of risk in terms of both availability and price at any point 19 in time. Although the construction of new facilities by the EDU does not eliminate all risk, 20 it does reduce that risk because the EDU controls the availability of the supply and can 21 better control the price. As of 2005, the Companies still owned generating facilities in Ohio. 22 As a result of restructuring mandated by Senate Bill 3, however, the assumption in 2005 was 23 that the Companies' existing generating capacity would be devoted to the market after the rate stabilization period ended and would no longer be dedicated to Ohio customers. 24 Pursuing the development of a new 600 MW facility as an asset of the Companies' 25 26 distribution function was seen as a viable means to ensure that the supply generated by that

1 facility in the future would be available to meet at least a portion of the Companies' POLR 2 In 2005, and projected into the future, the supply needed to satisfy the obligation. 3 Companies' combined POLR obligation was significantly greater than 600 MW. The 4 option of constructing the proposed Great Bend IGCC facility was particularly appealing 5 because, in addition to giving the Companies control over a dedicated supply of generation 6 that would be available to satisfy their on-going POLR obligations, the facility would utilize 7 an abundant supply of relatively low-cost Ohio coal and would do so in an environmentally 8 responsible manner.

# 9 Q. HAS AEP OHIO COMMITTED TO THE CONSTRUCTION OF THE GREAT

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# BEND IGCC FACILITY IN MEIGS COUNTY?

11 A. No. The question of whether the facility would be constructed was an open issue at the time 12 the Companies filed their application in this proceeding. During the period 2005 through 2008, the Companies actively explored the possible development and construction of such a 13 14 facility. That first phase, or Phase I, was a pre-construction exploratory undertaking. The 15 discrete activities undertaken in Phase I, for which costs have been incurred and recovered, are described in the pre-filed testimony of Company witness Duellman. While the Ohio 16 17 Supreme Court referred to these activities as "research and development", it is important to 18 keep in mind that Phase I was undertaken to explore the feasibility and gain an 19 understanding of the cost and complexities of constructing a specific IGCC facility, specific 20 to the Great Bend, Meigs County site, and not to perform "research and development" 21 activities related to furthering the understanding of IGCC technology in general. IGCC 22 technology was already developed and available for commercialization, subject to the 23 appropriate scoping, engineering and design activities that were undertaken in Phase I. And,

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as described in witness Duellman's testimony, the goal of the Phase I activities that were performed was to arrive at a cost estimate for a complete IGCC generating facility that was planned for construction at the time the activities were performed.

4 At the same time that the Companies were undertaking those Phase I activities 5 described above, the Companies also were exploring other issues that would determine 6 whether a decision to go forward with construction would ultimately be possible. Most 7 important of all, AEP Ohio had to determine whether the project would be economically justifiable and if cost recovery would be assured. AEP Ohio could not commit to construct 8 9 a facility estimated to cost over \$1 billion to build without having a firm assurance that it 10 would be able to recover its costs of construction and operation. Thus, critical to the 11 analysis of whether to proceed, was the application filed in this proceeding on March 18, 12 2005, and the Commission's decision to commit to the allowance of cost recovery for all phases of the project, including the subsequent construction and operation phases. 13

At the present time, it is not contemplated that the Great Bend IGCC facility envisioned in 2005 will be constructed. As a result of, among other things, the Ohio Supreme Court's reversal and remand of the Commission's earlier decision in this case, the challenges to the construction of new base load generation in Ohio arising from the enactment of S.B. 221 in 2008, the recession that began in 2008, and the uncertainty regarding future load growth, AEP Ohio is not currently pursuing the construction of an IGCC facility.

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## **Q. DID THE COMPANIES FILE THEIR INITIAL APPLICATION IN THIS**

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# PROCEEDING UNDER R.C. CHAPTER 4909, AND, IF NOT, WHY NOT?

3 A. I am advised by counsel that the initial application references R.C. Chapter 4928, not R.C. 4 Chapter 4909, because the Companies were seeking a POLR charge, not unlike the POLR 5 charges authorized by the Commission in the Companies' RSP Order issued in accordance 6 with R.C. Chapter 4928. The application did not seek an increase in the Companies' 7 existing rates, as established in the RSP Order, and, in fact, the effect of approving the 8 requested POLR charge was to limit the right the Companies had been given under the RSP 9 Order to request additional generation rate increases during the rate stabilization period by 10 reducing the amounts that could be requested (up to 4% per year, on average) by the amount 11 of revenue collected through the IGCC surcharges.

12 On this point it is worth noting that while the application sought the approval of a cost recovery mechanism for all phases of the proposed project, including preconstruction, 13 14 construction, and operation, the Commission only authorized the recovery of the POLR 15 charge to recover the preconstruction costs incurred in Phase I of the project. The Commission deferred consideration of cost recovery for the subsequent construction and 16 17 operation phases to a later proceeding. The costs approved for recovery were not 18 construction costs and were not based on the valuation of property owned or used by the 19 Companies.

# Q. PLEASE ADDRESS HOW THE FULL RECOVERY OF THE PHASE I IGCC COSTS RELATES TO THE 75% COMPLETE CONSTRUCTION WORK IN PROGRESS STANDARD MIGHT APPLY TO THE GREAT BEND IGCC PROJECT.

5 A. My understanding, based on the advice of counsel, is that the 75% construction work in 6 progress (CWIP) standard applies to recovery through rates of the costs of capital 7 investments in utility assets prior to such assets going into service and prior to inclusion of those investments in a utility's rate base. Because AEP Ohio did not go forward with the 8 9 Great Bend IGCC project, the capital expenditures for the plant that would occur during 10 Phase II never were made. Consequently, there is no practical basis for addressing how the 11 75% CWIP standard applies to Phase II capitalized construction expenditures that never 12 occurred. The Phase I IGCC expenditures were for pre-construction costs, not CWIP, intended to support the study and assessment of whether the Great Bend IGCC generation 13 14 project the commission was encouraging AEP Ohio to undertake would be a feasible and 15 prudent undertaking and to scope out the design for any such project. It was known and 16 understood that these costs would be incurred, regardless of whether any construction work 17 was ultimately undertaken or whether there ultimately would be a new IGCC generation 18 facility used and useful in rendering service in Ohio. The costs incurred were current 19 expenses - not capitalized investment costs. As a result, the 75% CWIP standard has no 20 applicability to these costs.

- 21 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
- A. Yes it does.

# COLUMBUS SOUTHERN POWER COMPANY'S AND OHIO POWER COMPANY'S RESPONSE TO OCC'S INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS FOURTH SET CASE NO. 05-376-EL-UNC

# **DISCOVERY REQUEST**

117. With respect to the "POLR" obligations inquired into in the previous interrogatory, what is the expected allocation of existing AEP generation to "POLR" load?

## **Response:**

Through the remainder of the Market Development Period and the three-year rate stabilization period ending December 31, 2008, the Companies' generation will be allocated to "POLR" load as well as other AEP loads. Absent any change in law, the Companies expect that by the time the IGCC plant is placed in service, none of their previously existing generation will be allocated to POLR load.

Prepared by: J. C. Baker

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in

Case No(s). 05-0376-EL-UNC

Summary: Testimony Direct Testimony of Gary O. Spitznogle on behalf of Ohio Power Company electronically filed by Ms. Christen M. Blend on behalf of Ohio Power Company