

IN THE SUPREME COURT OF OHIO

Industrial Energy Users-Ohio

Appellant,

v.

The Public Utilities Commission of Ohio,

Appellee.

: Case No. 06-1594
:
: Appeal from the Public
: Utilities Commission of Ohio
:
: Public Utilities
: Commission of Ohio
: Case No. 05-376-EL-UNC
:

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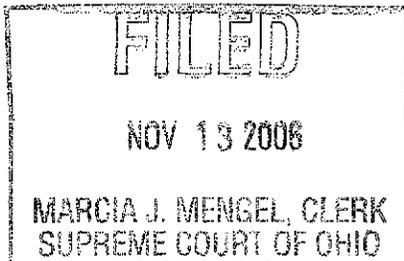
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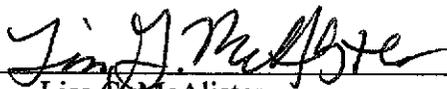
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CERTIFICATE OF SERVICE

I hereby certify that a copy of this Supplement of Appellant, Industrial Energy Users-Ohio, was sent by ordinary U.S. mail, postage prepaid, or hand-delivered to the parties listed below, and pursuant to Section 4903.13 of the Ohio Revised Code on November 13, 2006.



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Provider of Last Resort (POLR) obligation (In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of a Post-Market Development Period Rate Stabilization Plan), Case No. 04-169-EL-UNC (the RSP case) January 26, 2005 Opinion and Order, pp. 27, 29, 37, 38).

5. In its RSP Opinion and Order the Commission authorized the establishment of a POLR charge. (p. 27). Elsewhere in its Opinion and Order the Commission stated that the Companies “will be held forth as the POLR to consumers.... Consistent with Ohio law, the POLR designation places expectations upon EDUs; the companies must have sufficient capacity to meet unanticipated demand.” (p. 37). The Commission urged the Companies “to move forward with a plan to construct an integrated gasification combined-cycle (IGCC) facility in Ohio.” (*Id.*). In that connection, the Commission stated that it “is exploring regulatory mechanisms by which utilities, given their POLR responsibilities, might recover the costs of these new facilities.” (p. 38).
6. As part of their fulfillment of their ongoing POLR responsibility, the Companies are prepared to embark on the path toward construction of a 600 MW IGCC facility at a site in Ohio. On a preliminary basis the Companies have asked the PJM RTO to analyze the impacts of locating a 600 MW facility in Meigs County, Ohio in the Great Bend area. The Companies will share in the costs of the IGCC facility based upon the retail loads of each Company during the expected operating life of the facility.

IGCC technology represents an advanced form of coal-based generation that offers enhanced environmental performance. The integration of coal gasification

technology, which removes pollutants before the gas is burned, with combined cycle technology results in fewer emissions of nitrogen oxide, sulfur dioxide, particulates and mercury, in addition to lower carbon dioxide emissions. The Companies believe that construction of an IGCC facility presents an economical and environmentally effective 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 environmental requirements for existing and future coal-fired generation which must be anticipated as a matter of prudent planning, including, for example, the potential of significant capital expenditures related to retrofitting traditionally built pulverized coal fired generating facilities. In addition, IGCC has many financial benefits, including its:

- Superior efficiency with lower priced Eastern bituminous coal,
- Superior environmental performance,
- Adaptability to carbon capture and disposal, to conform to anticipated future emission reduction laws and regulations, and
- Potential for by-product sales opportunities.

The Companies will submit in this docket a more detailed discussion outlining the technological and economic benefits associated with an IGCC facility.

The large investment for IGCC now will yield greater long-term adaptability to many environmental regulatory scenarios of the future. The following chart provides extensive data comparing the cost and operational specifications of IGCC to

traditional pulverized coal (PC) processes, as well as natural gas combined cycle (NGCC) – a parallel process to IGCC, but with a costlier fuel source. The data were compiled by the Electric Power Research Institute, and are based on nationally accepted economic assumptions regarding fuel costs, heat rates and financial expenditures.

Technology	PC Subcritical	PC Supercritical	IGCC (E-Gas) W/ Spare	IGCC (E-Gas) No Spare	NGCC High CF	NGCC Low CF
Total Plant Cost, \$/kW	1,230	1,290	1,350	1,250	440	440
Total Capital Requirement, \$/kW	1,430	1,490	1,610	1,490	475	475
Fixed O&M, \$/kW-yr	40.5	41.1	56.1	52.0	5.1	5.1
Variable O&M, \$/MWh	1.7	1.6	0.9	0.9	2.1	2.1
Avg. Heat Rate, Btu/kWh (HHV)	9,310	8,690	8,630	8,630	7,200	7,200
Capacity Factor, %	80	80	80	80	80	40
Levelized Fuel Cost, \$/Mbtu (2003\$)	1.50	1.50	1.50	1.50	5.00	5.00
Capital, \$/MWh (Levelized)	25.0	26.1	28.1	26.0	8.4	16.9
O&M, \$/MWh (Levelized)	7.5	7.5	8.9	8.3	2.9	3.6
Fuel, \$/MWh (Levelized)	14.0	13.0	12.9	12.9	36.0	36.0

Source: Electric Power Research Institute

As shown, the incremental cost difference in the levelized cost of electricity between IGCC and other technologies is relatively small. However, the savings with IGCC in the event of retrofitting for future carbon capture regulations are significant, as will be supported in the Companies' more detailed discussion.

7. In order to proceed, however, the Companies must have an approved mechanism by which costs associated with constructing and operating such a project throughout the life of the facility can be recovered in rates authorized by the Commission.

Therefore, consistent with the Commission statements noted above, the Companies submit this application in which they propose a three-phase regulatory mechanism for recovering their costs, including carrying costs, associated with meeting their POLR responsibilities. As described in greater detail below:

In Phase I, the Companies would recover during 2006 the actual dollars they will have spent on the IGCC facility up to the time of the execution of an Engineering, Procurement and Construction (EPC) contract (approximately in June 2006);

In Phase II, beginning in 2007 through the time the IGCC facility goes into commercial operation, the Companies would recover a carrying charge on their construction costs incurred from the execution of the EPC contract until the beginning of Phase III; and

In Phase III, which would last through the commercial life of the IGCC facility, the Companies would collect a return on as well as a return of their investment in the facility, and would collect their operating expenses, including fuel and consumables, through rates authorized by the Commission.

PHASE I RECOVERY

7. The Companies propose to recover certain IGCC costs in 2006 as a temporary generation rate surcharge on the standard service rate schedules authorized in the RSP order. Those costs, which are projected to total approximately \$18 million, are the actual costs incurred through February 28, 2005 (Actual Costs) as well as the costs projected to be incurred from March 2005 until the Companies enter into the EPC

contract which is currently estimated to occur in June 2006 (Projected Costs). To begin recovering these Actual and Projected Costs, the Companies propose that they be authorized to assess a generation rate surcharge on the standard service rate schedules authorized in the RSP order, effective with the first billing cycle in January 2006. The surcharge would remain in effect for 12 billing months. Any customer that receives its generation service from a CRES provider during any portion or all of this period will avoid the surcharge for such period of time.

9. The Actual Costs amount to \$932,000. These costs, which have been deferred, generally relate to the following categories of activities:

Dollars are in \$000s

Category	Actuals Thru February 28, 2005
Scoping Study	\$ 145
Outside Services	\$ 342
New Generation Labor	\$ 80
Engineering Services Labor	\$ 248
Other Internal Labor and Corporate Overhead	\$ 82
Expenses	\$ 35
Total Generation Costs	\$ 932
Interconnection	\$ -
Total Interconnection Costs	\$ -
TOTAL COSTS	\$ 932

10. The Projected Costs are estimated to be \$17 million. The costs generally relate to the following categories of activity.

Dollars are in \$000s

Category	March 2005
	Thru June 2006
Scoping Study/Front End Engineering and Design	\$ 9,750
Outside Services	\$ 1,100
New Generation Labor	\$ 2,540
Engineering Services Labor	\$ 1,240
Other Internal Labor and Corporate Overhead	\$ 1,103
Expenses	\$ 890
Total Generation Costs	\$ 16,623
Interconnection	\$ 400
Total Interconnection Costs	\$ 400
TOTAL COSTS	\$ 17,023

11. The proposed Phase I surcharge to the standard service rate schedules, as determined using a peak demand allocation and projected energy, would be as shown in the following chart.

Columbus Southern Power Company

<u>Rate Schedule</u>	<u>Surcharge</u> (¢/kWh)
R-R, R-R-1, RLM, RS-ES and RS-TOD	0.05801
GS-1	0.04987
GS-2	0.05083
GS-3	0.03935
GS-4, IRP-D	0.03337
SBS	0.04070
SL	0.01661
AL	0.01893

Ohio Power Company

<u>Rate Schedule</u>	<u>Surcharge</u> (¢/kWh)
RS, RS-ES, RS-TOD and RDMS	0.03933
GS-1	0.04441
GS-2 and GS-TOD	0.04543
GS-3	0.03262
GS-4, IRP-D	0.02664
EHG	0.04838
EHS	0.06258
SS	0.04965
OL	0.00961
SL	0.00958
SBS	0.03174

For residential customers using 1,000 Kwh per month, the monthly surcharge would amount to 58¢ and 39¢ for CSP and OP, respectively.

PHASE II RECOVERY

12. Beginning with the first billing cycle in 2007 and through the last billing cycle before the IGCC plant is in commercial operation (currently estimated to occur in mid-2010), the Companies propose that they be authorized to collect an annually levelized carrying charge on the cumulative construction costs (including the carrying costs deferred after the EPC contract is executed and through the end of 2006) through a generation rate surcharge on the standard service rate schedules authorized by the Commission. The carrying charge would be based on each Companies' respective weighted average cost of capital, using an 11.75% return on equity, applied to each company's Construction Work in Process for the IGCC facility at the end of each month. During this period the Companies would not capitalize any carrying charges recovered pursuant to the Phase I and Phase II recovery provisions.

The generation rate surcharge will be in addition to the standard service offer generation rates authorized in the RSP order during the first portion of this recovery phase, i.e. from the first billing cycle in 2007 until the last billing cycle of 2008. From the first billing cycle of 2009 until the next phase of recovery (Phase III) begins with commercial operation of the IGCC facility, the surcharge will be in addition to the standard service offer generation rates authorized by the Commission for that period of time. Any customer that receives its generation service from a CRES provider during any portion or all of these periods will avoid the surcharge for such period of time. The current projection of the total cost of construction of the IGCC facility, without carrying costs, is \$1,033,000,000. The estimated carrying costs are \$237,488,000. The surcharges, based on those estimated carrying costs, calculated in the same manner as the Phase I surcharges for each company for 2007, 2008, 2009 and 2010 are estimated to be:

<u>Rate Schedule</u>	<u>Columbus Southern Power Company</u>			
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
R-R, R-R-1, RLM, RS-ES and RS-TOD	0.03553	0.16667	0.32329	0.38721
GS-1	0.03054	0.14326	0.27789	0.33282
GS-2 and GS-TOD	0.03113	0.14603	0.28325	0.33924
GS-3	0.02410	0.11306	0.21929	0.26265
GS-4, IRP-D	0.02043	0.09586	0.18593	0.22269
SBS	0.02492	0.11693	0.22680	0.27164
SL	0.01017	0.04773	0.09258	0.11088
AL	0.01159	0.05439	0.10551	0.12637

Ohio Power Company

<u>Rate Schedule</u>	<u>Surcharge (¢/kWh)</u>			
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
RS, RS-ES, RS-TOD and RDMS	0.02420	0.11423	0.22298	0.26432
GS-1	0.02733	0.12898	0.25177	0.29846
GS-2	0.02795	0.13193	0.25753	0.30529
GS-3	0.02008	0.09475	0.18495	0.21924
GS-4, IRP-D	0.01640	0.07738	0.15104	0.17905
BHG	0.02977	0.14050	0.27425	0.32511
EHS	0.03851	0.18173	0.35475	0.42053
SS	0.03055	0.14418	0.28145	0.33364
OL	0.00591	0.02790	0.05447	0.06456
SL	0.00589	0.02781	0.05429	0.06436
SBS	0.01953	0.09219	0.17996	0.21333

The Companies also request specific accounting authority to defer on their books the carrying cost accrued during the period of time from the execution of the EPC contract and the commencement of carrying cost recovery in the second phase of cost recovery (first billing cycle of 2007) and to amortize those carrying costs over the twelve months in 2007.

PHASE III RECOVERY

13. Prior to the Companies placing the IGCC facility in commercial operation, the Companies will file with the Commission an IGCC Recovery Factor that would be based on a return on as well as a return of the investment in the facility, as well as operating expenses, including fuel and consumables. In other words, the IGCC facility would be treated as if it were a single asset regulated utility. After a hearing and showing that costs are reasonable, the Commission will approve the IGCC Recovery Factor. The IGCC Recovery Factor would be subject to future Commission-approved adjustment for changes in relevant factors, such as IGCC

investment level, customer load, appropriate rate of return, life expectancy of the facility and operating expenses. Moreover, the IGCC Recovery Factor will be adjusted annually to reflect changes in the costs of fuel and consumables since the IGCC Recovery Factor was most recently set, and any prior over-or under-recovery of actual costs of fuel, which include purchased power, and consumables. In this regard, the Companies request accounting authority to practice deferred accounting for over/under recoveries of the costs of fuel and consumables.

The Commission-approved IGCC Recovery Factor will be compared to the Commission-approved standard service offer for the applicable period and an IGCC Adjustment Factor will be calculated to reflect the revenue difference between the IGCC Recovery Factor and the Commission-approved standard service offer. The IGCC Adjustment Factor will be reflected as a charge or credit to the Companies' approved distribution rate schedules and will continue for the period that the particular standard service offer and IGCC Recovery Factor are in effect. The IGCC Adjustment Factor and resulting charge or credit will be revised throughout the life of the IGCC facility as the Commission approves a change to the Companies' standard service offer and as the IGCC Recovery Factor changes.

If the Commission has not issued a final order concerning an IGCC Recovery Factor filing within 90 days of the Companies' filing, the proposed IGCC Recovery Factor will become effective on an interim basis and will remain in effect until such time as the Commission's final order is implemented. The Commission's final order

will provide for a reconciliation of the authorized IGCC Recovery Factor as compared to the interim IGCC Recovery Factor that had been in effect.

14. The Companies recognize that the actual revenues collected during the first and second phases of cost recovery are likely to result in either an over- or under-recovery of the actual revenues intended to be recovered. This is due to variations in actual customer loads and actual expenditure levels from projections used in establishing the surcharges in those two phases. Therefore, the Companies propose that monthly, throughout Phases I and II, the net of the over- and under-recovered revenues be subtracted from or added to the Construction Work in Process accounts for the IGCC facility which upon commercial operation will be used in determining the IGCC Recovery Factor during the third phase of recovery.

OTHER RSP IMPACTS

15. The portion of the Companies' request in this application for IGCC-related revenues during the three-year rate stabilization period (2006-2008) is not being submitted pursuant to the provision of the RSP order which permits the Companies to request additional generation rate increases above the fixed generation increases. (See Opinion and Order, January 26, 2005, Case No. 04-169-EL-UNC, pp. 21,22). Nonetheless, in light of the environmental compliance capabilities of the IGCC facility, some parties might believe that the revenues collected pursuant to this application during the rate stabilization period should be used to reduce the amounts of additional generation rate increases the Companies can request under the RSP. In recognition of that concern, the Companies propose that the IGCC-related revenues

collected through surcharges during the rate stabilization period will be tracked and those amounts will be considered as reducing the amounts of additional generation rate increases that each Company can request under the RSP.

Further, additional revenues collected pursuant to this application during 2006 and 2007 will not be considered as part of the generation rate levels which will be increased by 3% and 7%, for CSP and OP respectively, in 2007 and 2008 pursuant to the RSP order.

In light of the POLR obligation resting on EDUs in Ohio and the fact that the Companies do not have an affiliated CRES provider, the Companies do not believe that they are required to corporately separate. Since corporate separation might be required after the rate stabilization period, the Companies request, as part of this application, any waiver that would be needed to permit the Companies, as EDUs, to retain ownership of the IGCC facility.

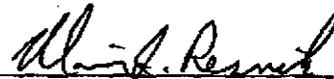
CONCLUSION

16. The Companies' construction and operation of an IGCC facility in Ohio, with assured cost recovery, are consistent with the Governor's charge to the Commission and other state agencies "to enhance the business climate in Ohio as it competes on a regional, national and global basis for economic development projects." (RSP Opinion and Order, p. 37). It also is consistent with the Commission's observation that the state's policy is to provide customers a "future secure in the knowledge that electricity will be available at competitive prices." (*Id.*). This facility will help fulfill the Companies' POLR obligation, and thereby encourage business development in their

service areas. Moreover, the facility itself will create valuable jobs in an economically depressed area of Ohio. It is expected that construction employment will peak at about 1900 jobs. Ongoing operation of the IGCC facility should result in about 125 permanent jobs. The IGCC facility is expected to produce about \$10 million per year in state and local tax revenue. All the while, Ohio's environment will be improved by having this new "environmentally friendly" generating facility which will be capable of using competitively priced Ohio high sulfur coal to meet the Companies' customers' default demand for electric energy.

17. Cost recovery throughout the life of the IGCC facility needs to be addressed at the outset for the Companies to pursue construction of the facility. Therefore, the Companies request that the Commission expeditiously approve this application so that they can proceed with bringing IGCC technology to their customers and to Ohio. In this regard, the Companies request that the Commission establish a procedural schedule to consider this application.

Respectfully submitted,



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FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus)
Southern Power Company and Ohio Power) Case No. 05-376-EL-UNC
Company for Authority to Recover Costs)
Associated with the Ultimate Construction and)
Operation of an Integrated Gasification Combined)
Cycle Electric Generating Facility.)

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COLUMBUS SOUTHERN POWER COMPANY'S AND OHIO POWER
COMPANY'S FILING OF COMPLIANCE TARIFF

1. Columbus Southern Power Company and Ohio Power Company (collectively, the Companies) are public utilities and electric light companies as those terms are defined in §§ 4905.02 and 4905.03(A)(4), Ohio Rev. Code, respectively.
2. The Companies also are electric distribution utilities (EDU) as that term is defined in § 4928.01(A)(6), Ohio Rev. Code.
3. The Companies are electric utility operating company subsidiaries of American Electric Power Company, Inc. (AEP).
4. On March 18, 2005, the Companies filed an application in this matter requesting approval of a mechanism by which to recover the costs associated with the construction and operation of an integrated gasification combined cycle ("IGCC") electric generation facility in Ohio.
5. On April 10, 2006, the Commission issued an Order in this matter finding, among other things, that it has the authority to approve a mechanism that grants recovery of

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the costs of the IGCC plant proposed by the Companies,¹ and that as such it was appropriate to “take the initial step of approving Phase I cost recovery mechanism of the application.”²

6. Phase I costs are defined as those expenditures that will be incurred up to the point of entering into engineering, procurement and construction contract. These costs include expenses associated with the GE/Bechtel scoping study; the GE/Bechtel Front End Engineering and Design (“FEED”) process; outside services and internal costs associated with defining the costs for items outside of the engineering, procurements and construction (“EPC”) contract scope; AEP’s internal costs for environmental permitting; and AEP’s internal costs for project management.
7. During the hearing held in this matter, the Companies estimated that these Phase I pre-construction costs would be approximately \$23.7 million. The Companies requested that they be permitted to recover these dollars over a 12-month period as a by-passable generation rate surcharge applied to the standard service rate schedules approved by the Commission in the Companies’ Rate Stabilization Plan proceeding (Case No. 04-169-EL-UNC). The proposed surcharges were set out in the pre-filed Supplemental Testimony of Companies’ witness David Roush filed August 3, 2005. (Companies. Ex. 7A, DMR Exhibit 3(S1)).
8. In the April 10, 2006 Order, the Commission ordered the Companies to file, for its approval, tariffs and customer notices to recover costs associated with Phase I pre-construction costs for the IGCC plant.³

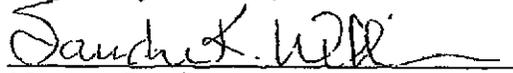
¹ Order at page 18.

² *Id.* at page 20.

³ *Id.* at page 23.

9. As directed by the Commission, the Companies are filing their compliance tariffs in order to implement charges that will permit them to recover the Phase I costs associated with the IGCC plant. The proposed charge is to be collected over a 12-month period beginning with the first billing cycle in June 2006. The charge will be a generation rate surcharge applied to the standard service rate schedules. The tariff sheets reflecting the new charge are appended to this Application as Attachment A and consist of the table of contents (sheet 1-2), individual schedule sheets containing the table of applicable riders, the IGCC Cost Recovery Charge Rider (sheet 76-1), and the Open Access Distribution cross reference (sheet 1-2D) for each Company.
10. Attachment B to this filing contains the Companies' proposed notice to be sent to customers that explains the new charge.
11. The Companies request that the Commission approve the new tariff rates, to be effective the first billing cycle in June 2006, as well as the proposed customer notice.

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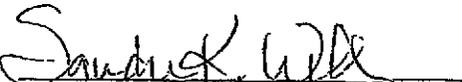
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COUNSEL FOR COLUMBUS SOUTHERN
POWER COMPANY AND OHIO POWER
COMPANY

CERTIFICATE OF SERVICE

I hereby certify that a copy of Columbus Southern Power Company's and Ohio Power Company's Filing of Compliance Tariff was served by electronic mail or First-Class U.S. Mail upon counsel identified below for all parties of record this 20th day of April, 2006.


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Attachment A

**COLUMBUS SOUTHERN POWER COMPANY
AND OHIO POWER COMPANY**

COMPLIANCE TARIFF

Filed pursuant to Order in Case No. 05-376-EL-UNC

COLUMBUS SOUTHERN POWER COMPANY

COMPLIANCE TARIFF

Filed pursuant to Order in Case No. 05-376-EL-UNC

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AEP Ohio

P.U.C.O. NO. 6

SCHEDULE R-R
(Residential Service)Load Management Water Heating Provision (Cont'd)

This provision, however, shall in no event apply to the first 200 KWH used in any month, which shall be billed in accordance with the "Monthly Rate" as set forth above.

For purpose of this provision, the on-peak billing period is defined as 7:00 AM to 9:00 PM local time for all weekdays, Monday through Friday. The off-peak billing period is defined as 9:00 PM to 7:00 AM for all weekdays, all hours of the day on Saturdays and Sundays, and the legal holidays of New Year's Day, Presidents Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

The Company reserves the right to inspect at all reasonable times the load management storage water heating system and devices which qualify the residence for service under the Load Management Water Heating Provision, and to ascertain by any reasonable means that the time-differentiated load characteristics of such devices meet the Company's specifications. If the Company finds that in its sole judgment the availability conditions of this provision are being violated, it may discontinue billing the customer under this provision and commence billing under the standard monthly rate.

Payment

Bills are due and payable in full by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 15 days after the mailing of the bill.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongahela Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

A written agreement may, at the Company's option, be required.

(Continued on Sheet No. 10-4)

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Kevin E. Walker, President
AEP Ohio

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SCHEDULE R-R-1
(Residential Small Use Load Management Service)Applicable Riders (Cont'd)

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongahela Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

A written agreement may, at the Company's option, be required.

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

This schedule is intended for single phase service. Where the residential customer requests three-phase service, this schedule will apply if the residential customer pays to the Company the difference between constructing single-phase service and three-phase service.

Customers with cogeneration and/or small power production facilities shall take service under Schedule COGEN/SPP, Schedule NEMS, or by special agreement with the Company.

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AEP Ohio

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SCHEDULE RLM
(Residential Optional Demand Service)Applicable Riders (Cont'd)

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongahela Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Determination of Billing Demand

The billing demand shall be the maximum 30-minute integrated kilowatt demand recording of an integrating demand meter during the current billing period.

Term of Contract

The term of contract shall be an initial period of four years under the Rural Line Extension Plan, but in no case shall the contract term be less than one year.

Special Term and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

This schedule is intended for single phase service. Where the residential customer requests three-phase service, this schedule will apply if the residential customer pays to the Company the difference between constructing single-phase service and three-phase service.

Customers with cogeneration and/or small power production facilities shall take service under Schedule COGEN/SPP, Schedule NEMS, or by special agreement with the Company.

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**SCHEDULE RS-ES
 (Residential Energy Storage)**

Conservation and Load Management Credits

For the combination of an approved electric thermal storage space heating and/or cooling system and water heater, all of which are designed to consume electrical energy only during the off-peak period as previously described in this schedule, each residence will be credited the Conservation and Load Management Energy Credit for all KWH used during the off-peak billing period, for a total of 60 monthly billing periods following the installation and use of these devices in such residence.

	Generation	Transmission	Distribution	Total
Conservation and Load Management Energy Credit (\$ per KWH)	0.57237	--	--	0.57237

Separate Metering Provision

Customers shall have the option of receiving service under Schedule R-R or Schedule R-R-1 for their general-use load by separately wiring this equipment to a standard residential meter.

Payment

Bills are due and payable in full by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 15 days after the mailing of the bill.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongahela Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

A written agreement may, at the Company's option, be required.

(Continued on Sheet No. 13-3)

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 Kevin E. Walker, President
 AEP Ohio

SCHEDULE RS-TOD
(Residential Time-of-Day Service)Applicable Riders (Cont'd)

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongaheta Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

A written agreement may, at the Company's option, be required.

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

This schedule is intended for single phase service. Where the residential customer requests three-phase service, this schedule will apply if the residential customer pays to the Company the difference between constructing single-phase service and three-phase service.

Customers with cogeneration and/or small power production facilities shall take service under Schedule COGEN/SPP, Schedule NEMS, or by special agreement with the Company.

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COLUMBUS SOUTHERN POWER COMPANY

1st Revised Sheet No. 20-1
 Cancels Original Sheet No. 20-1

P.U.C.O. NO. 6

SCHEDULE GS-1
 (General Service - Small)

Availability of Service

Available for general service to customers with maximum demands less than 10 KW (excluding the demand served by the Load Management Time-of-Day provision). This schedule shall remain in effect through the last billing cycle of December 2006.

Monthly Rate (Schedule Codes 202, 206)

	Generation	Transmission	Distribution	Total
Customer Charge (\$)	--	--	6.80	6.80
Energy Charge (¢ per KWH):				
For the first 1,000 KWH used per month	7.40123	0.39085	1.51282	9.30490
For all KWH over 1,000 KWH used per month	4.63053	0.39085	1.51282	6.53420

Minimum Charge

The minimum monthly charge shall be the Customer Charge.

Delayed Payment Charge

The above schedule is net if full payment is received by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 21 days after the mailing of the bill. On all accounts not so paid, an additional charge of five percent (5%) of the total amount billed will be made. Federal, state, county, township and municipal governments and public school systems not served under special contract are subject to the Public Authority Delayed Payment provision, Supplement No. 21.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongahela Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

(Continued on Sheet No. 20-2)

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Effective: Cycle 1 June 2006

Issued by
 Kevin E. Walker, President
 AEP Ohio

P.U.C.O. NO. 6

SCHEDULE GS-2
(General Service - Low Load Factor)Delayed Payment Charge

The above schedule is net if full payment is received by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 21 days after the mailing of the bill. On all accounts not so paid, an additional charge of five percent (5%) of the total amount billed will be made. Federal, state, county, township and municipal governments and public school systems not served under special contract are subject to the Public Authority Delayed Payment provision, Supplement No. 21.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongahela Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Monthly Billing Demand

Energy supplied hereunder will be delivered through not more than one single-phase or one polyphase meter. Billing demand in KW shall be taken each month as the single highest 30-minute integrated peak in kilowatts as registered during the month by a 30-minute integrating demand meter or indicator or, at the Company's option, as the highest registration of a thermal-type demand meter or indicator.

The minimum monthly billing demand established hereunder shall not be less than (a) the minimum billing demand, if any, specified in the service contract or (b) 60% of the customer's highest previously established monthly billing demand during the past 11 months in excess of 100 KW.

The minimum monthly billing demand shall not be less than 25% of the customer's highest previously established monthly billing demand during the past 11 months in excess of 100 KW during the billing months of June through September for customers with more than 50% of their connected load used for space heating purposes.

Churches, public and parochial schools, and county, township, municipal and civic recreation centers are subject to the Optional Church and School Service provision, Supplement No. 18.

The Metered Voltage adjustment, as set forth below, shall not apply to the customer's minimum monthly billing demand.

(Continued on Sheet No. 21-3)

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COLUMBUS SOUTHERN POWER COMPANY

1st Revised Sheet No. 22-2
Cancels Original Sheet No. 22-2

P.U.C.O. NO. 6

SCHEDULE GS-2-TOD
(General Service – Time-of-Day)

Applicable Riders (Cont'd)

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongahela Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

A written agreement may, at the Company's option, be required.

Notwithstanding any contractual requirement for longer than 90 days' notice to discontinue service, customers may elect to take service from a qualified CRES Provider, pursuant to the terms of the appropriate Open Access Distribution Schedule, by providing 90 days' written notice to the Company. If upon completion of such 90-day notice period, the customer has not enrolled with a qualified CRES Provider, then the customer must continue to take service under the Company's standard service schedules for a period of not less than twelve (12) consecutive months.

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

Customers with cogeneration and/or small power production facilities shall take service under Schedule COGEN/SPP, Schedule NEMS, or by special agreement with the Company.

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Kevin E. Walker, President
AEP Ohio

Effective: Cycle 1 June 2006

SCHEDULE GS-3
(General Service - Medium Load Factor)Delayed Payment Charge

The above schedule is net if full payment is received by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 21 days after the mailing of the bill. On all accounts not so paid, an additional charge of five percent (5%) of the total amount billed will be made. Federal, state, county, township and municipal governments and public school systems not served under special contract are subject to the Public Authority Delayed Payment provision, Supplement No. 21.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongahela Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Monthly Billing Demand

Energy supplied hereunder will be delivered through not more than one single-phase or one polyphase meter. Billing demand in KW shall be taken each month as the single highest 30-minute integrated peak in kilowatts as registered during the month by a 30-minute integrating demand meter or indicator or, at the Company's option, as the highest registration of a thermal-type demand meter or indicator.

The minimum monthly billing demand established hereunder shall not be less than (a) the minimum billing demand, if any, specified in the service contract or (b) 60% of the customer's highest previously established monthly billing demand during the past 11 months or (c) 50 KW.

The minimum monthly billing demand shall not be less than 25% of the customer's highest previously established monthly billing demand during the past 11 months during the billing months of June through September for customers with more than 50% of their connected load used for space heating purposes.

Churches, public and parochial schools, and county, township, municipal and civic recreation centers are subject to the Optional Church and School Service provision, Supplement No. 18.

The Metered Voltage adjustment, as set forth below, shall not apply to the customer's minimum monthly billing demand.

(Continued on Sheet No. 23-3)

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AEP Ohio

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COLUMBUS SOUTHERN POWER COMPANY

1st Revised Sheet No. 24-1
 Cancels Original Sheet No. 24-1

P.U.C.O. NO. 6

SCHEDULE GS-4
 (General Service - Large)

Availability of Service

Available for general service customers using the Company's standard subtransmission or transmission service with maximum demands in excess of 1,000 KVA. This schedule shall remain in effect through the last billing cycle of December 2006.

Monthly Rate (Schedule Codes 311, 312)

	Generation	Transmission	Distribution	Total
Customer Charge (\$)	-	-	750.00	750.00
Demand Charge (\$ per KVA):				
First 3,000 KVA	8.937	1.117	0.699	10.753
Over 3,000 KVA	3.772	1.117	0.699	5.588
Off-Peak Excess Demand Charge (\$ per KVA)	1.345	-	-	1.345
Energy Charge (¢ per KWH)	2.33844	-	-	2.33844

Minimum Charge

The minimum charge shall be equal to the sum of the Customer Charge, Demand Charges, and all applicable riders.

Delayed Payment Charge

The above schedule is net if full payment is received by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 21 days after the mailing of the bill. On all accounts not so paid, an additional charge of five percent (5%) of the total amount billed will be made.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongahela Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

(Continued on Sheet No. 24-2)

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 Kevin E. Walker, President
 AEP Ohio

P.U.C.O. NO. 6

SCHEDULE IRP-D
(Interruptible Power - Discretionary)Minimum Charge

The minimum charge shall be equal to the sum of the Customer Charge, the Demand Charges and all applicable riders.

Delayed Payment Charge

The above schedule is net if full payment is received by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 21 days after the mailing of the bill. On all accounts not so paid, an additional charge of five percent (5%) of the total amount billed will be made.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongahela Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Monthly Billing Demand

The billing demand in KVA shall be taken each month as the single highest 30-minute integrated peak in KVA, as registered during the month by a demand meter or indicator, but the monthly demand so established shall in no event be less than the greater of (a) 60% of the customer's contract capacity or (b) 60% of the customer's highest previously established monthly billing demand during the past 11 months or (c) 1,000 KVA.

Thirty-minute periods where replacement electricity is supplied shall be excluded in the determination of the billing demand.

Billing energy shall be taken each month as the total KWH registered during the month by an energy meter, excluding energy purchased under the Replacement Electricity provision.

The Metered Voltage adjustment, as set forth below, shall not apply to the customer's minimum monthly billing demand.

(Continued on Sheet No. 25-10)

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AEP Ohio

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P.U.C.O. NO. 6

SCHEDULE SBS
(Standby Service)Applicable Riders (Cont'd)

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongahela Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

Contracts under this schedule will be made for an initial period of not less than 1 year and shall continue thereafter until either party has given 6-months' written notice to the other of the intention to terminate the contract. The Company will have the right to make contracts for initial periods longer than 1 year.

A 6-month advance written request is required for any change in supplemental, backup or maintenance service requirements, except for the initial standby service contract. All changes in the standby service contract shall be effective on the contract anniversary date. The Company shall either concur in writing or inform the customer of any conditions or limitations associated with the customer's request within 60 days.

Notwithstanding any contractual requirement for longer than 90 days' notice to discontinue service, customers may elect to take service from a qualified CRES Provider, pursuant to the terms of the applicable Open Access Distribution Schedule, by providing 90 days' written notice to the Company. If upon completion of such 90-day notice period, the customer has not enrolled with a qualified CRES Provider, then the customer must continue to take service under the Company's standard service schedules for a period of not less than twelve (12) consecutive months.

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

At its discretion, the Company may require that Company-owned metering be installed to monitor the customer's generation. The Company reserves the right to inspect the customer's relays and protective equipment at all reasonable times.

Customers taking service under this rate schedule who desire to transfer to firm full requirements will be required to give the Company written notice of at least 36 months. The Company reserves the right to reduce the notice period requirement dependent upon individual circumstances.

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Kevin E. Walker, President
AEP Ohio

P.U.C.O. NO. 6

SCHEDULE SL
(Street Lighting Service)Other Equipment (Cont'd)

		Per Month
1.	For each lamp supported by a wood pole serving no other function than street lighting	\$ 1.20
2.	For each aluminum pole	\$12.45
3.	For each fiberglass pole	\$18.55
4.	For each additional 150 foot overhead wire span or part thereof	\$ 0.70
5.	For mounting other than standard bracket:	
	12 foot mastarm	\$ 1.05
	16 foot mastarm	\$ 1.40
	20 foot mastarm	\$ 2.45
6.	For each additional riser pole connection installed on or after May 21, 1992	\$ 3.60
7.	For each underground wire lateral not over 50 feet	\$ 1.15
8.	The Company may require the customer to pay for or furnish duct under pavements or adverse soil conditions should this be necessary for initial installation or due to paving over underground feed after placement.	

Delayed Payment Charge

Due Date and Delayed Payment Charge shall be pursuant to the provisions of Supplement 21.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongahela Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Ownership of Facilities

All facilities necessary for street lighting service hereunder, including but not limited to, all poles, fixtures, street lighting circuits, transformers, lamps and other necessary facilities shall be the property of the Company and may be removed if the Company so desires, at the termination of any contract for service hereunder. The Company will maintain all such facilities.

(Continued on Sheet No. 40-3)

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Effective: Cycle 1 June 2006

Issued by
Kevin E. Walker, President
AEP Ohio

SCHEDULE AL
(Private Area Lighting Service)Applicable Riders (Cont'd)

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider.	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Monongahela Power Litigation Termination Rider	73-1
Power Acquisition Rider	74-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Ownership of Facilities

All facilities necessary for service including fixtures, controls, poles, transformers, secondaries, lamps and other appurtenances shall be owned and maintained by the Company. All service and necessary maintenance will be performed only during the regular scheduled working hours of the Company.

Hours of Lighting

Dusk to dawn lighting shall be provided, approximately 4,000 hours per annum.

Term of Contract

Contract under this schedule will ordinarily be made for an initial term of one year with self-renewal provisions for successive terms of one year until either party shall give at least 60 days notice to the other of the intention to discontinue service at the end of any term. The Company may, at its option, require a longer initial term of contract to fulfill the terms and conditions of service and/or in order to protect the Company's ability to recover its investment of costs over a reasonable period of time.

Notwithstanding any contractual requirement for longer than 90 days' notice to discontinue service, customers may elect to take service from a qualified CRES Provider, pursuant to the terms of the applicable Open Access Distribution Schedule, by providing 90 days' written notice to the Company. If upon completion of such 90-day notice period, the customer has not enrolled with a qualified CRES Provider, then the customer must continue to take service under the Company's standard service schedules for a period of not less than twelve (12) consecutive months.

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

Rates contained herein are based upon continuous use of facilities and are not applicable to seasonal use.

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Kevin E. Walker, President
AEP Ohio

P.U.C.O. NO. 6

IGCC COST RECOVERY CHARGE RIDER

Effective Cycle 1 June 2006, all customer bills subject to the provisions of this Rider, including any bills rendered under special contract, shall be adjusted by the IGCC Cost Recovery Charge per KWH as follows:

Schedule	¢/KWH
R-R, R-R-1, RLM, RS-ES AND RS-TOD	0.07670
GS-1	0.06593
GS-2 and GS-2-TOD	0.06720
GS-3	0.05203
GS-4 and IRP-D	0.04411
SBS	0.05381
SL	0.02503
AL	0.02196

This temporary Rider shall remain in effect for twelve consecutive billing months through the final billing cycle of May 2007.

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Kevin E. Walker, President
AEP Ohio

Effective: Cycle 1 June 2006

P.U.C.O. NO. 6

SCHEDULE
CROSS REFERENCE

Generation, Transmission, Distribution Service	Sheet No.	Distribution Service Only	Sheet No.
SUPPLEMENTS		SUPPLEMENTS	
Additional Facilities Supp. No. 6	50-1-50-2	Additional Facilities Supp. No. 6	50-1D- 50-2D
Supp. No. 6A	51-1-51-2	Supp. No. 6A	51-1D- 51-2D
Church and School Service Supp. No. 18	52-1		
Public Authority-Delayed Payment Supp. No. 21	53-1	Public Authority-Delayed Payment Supp. No. 21	53-1D
RIDERS		RIDERS	
Universal Service Fund	60-1	Universal Service Fund	60-1D
Energy Efficiency Fund	61-1	Energy Efficiency Fund	61-1D
KWH Tax	62-1	KWH Tax	62-1D
Gross Receipts Tax	63-1	Gross Receipts Tax	63-1D
Property Tax Credit	64-1		
Municipal Income Tax	65-1	Municipal Income Tax	65-1D
Franchise Tax	66-1	Franchise Tax	66-1D
Regulatory Asset Charge	67-1	Regulatory Asset Charge	67-1D
Provider of Last Resort Charge	69-1	Provider of Last Resort Charge	69-1D
Electronic Transfer	70-1	Electronic Transfer	70-1D
Emergency Curtailable Service	71-1-71-3		
Price Curtailable Service	72-1-72-3		
Monongahela Power Litigation Termination	73-1	Monongahela Power Litigation Termination	73-1D
Power Acquisition	74-1		
Transmission Cost Recovery	75-1		
IGCC Cost Recovery Charge	76-1		

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Kevin E. Walker, President
AEP Ohio

OHIO POWER COMPANY

COMPLIANCE TARIFF

Filed pursuant to Order in Case No. 05-376-EL-UNC

P.U.C.O. NO. 18

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	Universal Service Fund Rider	60-1	Cycle 1 January 2006
	Energy Efficiency Fund Rider	61-1	Cycle 1 January 2006
	KWH Tax Rider	62-1	Cycle 1 January 2006
	Gross Receipts Tax Credit Rider	63-1	Cycle 1 January 2006
	Property Tax Credit Rider	64-1	Cycle 1 January 2006
	Municipal Income Tax Rider	65-1	Cycle 1 January 2006
	Franchise Tax Rider	66-1	Cycle 1 January 2006
	Regulatory Asset Charge Rider	67-1	Cycle 1 January 2006
	Provider of Last Resort Charge Rider	69-1	Cycle 1 January 2006
	Electronic Transfer Rider	70-1	Cycle 1 January 2006
	Emergency Curtailable Service Rider	71-1 thru 71-3	Cycle 1 January 2006
	Price Curtailable Service Rider	72-1 thru 72-3	Cycle 1 January 2006
	Transmission Cost Recovery Rider	75-1	January 1, 2006
	IGCC Cost Recovery Charge Rider	76-1	Cycle 1 June 2006
	Emergency Electrical Procedures	90-1 thru 90-9	Cycle 1 January 2006

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Kevin E. Walker, President
AEP Ohio

P.U.C.O. NO. 18

SCHEDULE RS
(Residential Service)Payment

Bills are due and payable in full by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 15 days after the mailing of the bill.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

A written agreement may, at the Company's option, be required.

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

This schedule is available to customers engaged in agricultural enterprises where service is taken through 1 meter for that customer's primary residence, and not more than 100 KW of connected electrical load is outside the residence. This schedule is not extended to operations of a commercial nature or operations such as processing, preparing, or distributing products not raised or produced on the farm, unless such operation is incidental to the usual residential and farm uses.

This schedule is intended for single-phase service. Where the residential customer requests 3-phase service, this schedule will apply if the customer pays to the Company the difference between constructing single-phase and 3-phase service. Where motors or heating equipment are used for commercial or industrial purposes, the applicable general service schedule will apply to such service.

Customers with cogeneration and/or small power production facilities which qualify under Section 210 of the Public Utility Regulatory Policies Act of 1978 shall take service under Schedule COGEN/SPP, Schedule NEMS, or by special agreement with the Company. All other customers having sources of electrical energy supply other than the Company shall take service under Schedule SBS or Schedule NEMS.

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P.U.C.O. NO. 18

SCHEDULE RS-ES
(Residential Energy Storage)Minimum Charge

The minimum monthly charge under this schedule shall be the sum of the customer charge and all applicable riders.

Separate Metering

Customers shall have the option of receiving service under Schedule RS for their general-use load by separately wiring such load to a standard residential meter. The distribution service charge for the separate meter shall be \$1.10 per customer per month.

Payment

Bills are due and payable in full by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 15 days after the mailing of the bill.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

A written agreement may, at the Company's option, be required.

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

The Company reserves the right to inspect at all reasonable times the energy storage devices which qualify the residence for service and for conservation and load management credits under this schedule, and to ascertain by any reasonable means that the time-differentiated load characteristics of such devices meet the Company's specifications. If the Company finds that, in its sole judgment, the availability conditions of this schedule are being violated, it may discontinue billing the customer under this schedule and commence billing under the appropriate residential service schedule.

(Continued on Sheet No. 11-3)

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AEP Ohio

Effective: Cycle 1 June 2006

P.U.C.O. NO. 18

SCHEDULE RS-TOD
(Residential Time-of-Day Service)Applicable Riders (Cont'd)

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

A written agreement may, at the Company's option, be required.

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

This schedule is available to customers engaged in agricultural enterprises where service is taken through 1 meter for that customer's primary residence, and not more than 100 KW of connected electrical load is outside the residence. This schedule is not extended to operations of a commercial nature or operations such as processing, preparing, or distributing products not raised or produced on the farm, unless such operation is incidental to the usual residential and farm uses.

This schedule is intended for single-phase service. Where the residential customer requests 3-phase service, this schedule will apply if the customer pays to the Company the difference between constructing single-phase and 3-phase service. Where motors or heating equipment are used for commercial or industrial purposes, the applicable general service schedule will apply to such service.

Customers with cogeneration and/or small power production facilities which qualify under Section 210 of the Public Utility Regulatory Policies Act of 1978 shall take service under Schedule COGEN/SPP, Schedule NEMS, or by special agreement with the Company. All other customers having sources of electrical energy supply other than the Company shall take service under Schedule SBS or Schedule NEMS.

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P.U.C.O. NO. 18

SCHEDULE RDMS
(Residential Demand Metered Service)Monthly Billing Demand

Monthly billing demand is the number of kilowatts determined by dividing the number of kilowatt-hours used during the on-peak period in the month by the number of hours in such period.

Payment

Bills are due and payable in full by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 15 days after the mailing of the bill.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

A written agreement may, at the Company's option, be required.

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

This schedule is available to customers engaged in agricultural enterprises where service is taken through 1 meter for that customer's primary residence, and not more than 100 KW of connected electrical load is outside the residence. This schedule is not extended to operations of a commercial nature or operations such as processing, preparing, or distributing products not raised or produced on the farm, unless such operation is incidental to the usual residential and farm uses.

This schedule is intended for single-phase service. Where the residential customer requests 3-phase service, this schedule will apply if the customer pays to the Company the difference between constructing single-phase and 3-phase service. Where motors or heating equipment are used for commercial or industrial purposes, the applicable general service schedule will apply to such service.

(Continued on Sheet No. 13-3)

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AEP Ohio

P.U.C.O. NO. 18

SCHEDULE GS-1
(General Service - Non-Demand Metered)Availability of Service

Available for general service to customers with maximum demands less than 10 KW (excluding the demand served by the Energy Storage Provision). This schedule shall remain in effect through the last billing cycle of December 2006.

Monthly Rate (Schedule Code 211)

	Generation	Transmission	Distribution	Total
Customer Charge (\$)	--	--	13.80	13.80
Energy Charge (\$ per KWH)	4.43709	0.37004	0.25649	5.06362

Minimum Charge

The minimum monthly charge under this schedule shall be the sum of the customer charge and all applicable riders.

Delayed Payment Charge

Bills are due and payable in full by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 21 days after the mailing of the bill. On accounts not so paid, an additional charge of 5% of the unpaid balance will be made.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

A written agreement may, at the Company's option, be required.

(Continued on Sheet No. 20-2)

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Kevin E. Walker, President
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P.U.C.O. NO. 18

SCHEDULE GS-2
(General Service - Low Load Factor)Metered Voltage Adjustment(Cont'd)

- (a) Measurements taken at the low-side of a customer-owned transformer will be multiplied by 1.01.
- (b) Measurements taken at the high-side of a Company-owned transformer will be multiplied by 0.98.

Delayed Payment Charge

Bills are due and payable in full by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 21 days after the mailing of the bill. On accounts not so paid, an additional charge of 2% of the unpaid balance will be made.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

For customers with annual average demands greater than 500 KW, contracts will be required for an initial period of not less than 1 year and shall remain in effect thereafter until either party shall give at least 6 months' written notice to the other of the intention to discontinue service under the terms of this schedule. For customers with demands less than 500 KW, a written agreement may, at the Company's option, be required.

A new initial contract period will not be required for existing customers who increase their contract requirements after the original initial period unless new or additional local facilities are required. The Company may, at its option, require a longer initial term of contract.

The Company shall not be required to supply capacity in excess of that contracted for except by mutual agreement.

(Continued on Sheet No. 21-5)

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Kevin E. Walker, President
AEP Ohio

Effective: Cycle 1 June 2006

SCHEDULE GS-TOD
(General Service - Time-of-Day)Applicable Riders (Cont'd)

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

A written agreement may, at the Company's option, be required.

Notwithstanding any contractual requirement for longer than 90 days' notice to discontinue service, customers may elect to take service from a qualified CRES Provider, pursuant to the terms of the applicable Open Access Distribution Schedule, by providing 90 days' written notice to the Company. If upon completion of such 90-day notice period, the customer has not enrolled with a qualified CRES Provider, then the customer must continue to take service under the Company's standard service schedules for a period of not less than twelve (12) consecutive months.

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

Customers with cogeneration and/or small power production facilities which qualify under Section 210 of the Public Utility Regulatory Policies Act of 1978 shall take service under Schedule COGENN/SPP, Schedule NEMS, or by special agreement with the Company. All other customers having sources of electrical energy supply other than the Company shall take service under Schedule SBS or Schedule NEMS.

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AEP Ohio

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P.U.C.O. NO. 18

SCHEDULE GS-3
(General Service - Medium/High Load Factor)Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

For customers with annual average demands greater than 500 KW, contracts will be required for an initial period of not less than 1 year and shall remain in effect thereafter until either party shall give at least 6 months' written notice to the other of the intention to discontinue service under the terms of this schedule. For customers with demands less than 500 KW, a written agreement may, at the Company's option, be required.

A new initial contract period will not be required for existing customers who increase their contract requirements after the original initial period unless new or additional facilities are required. The Company may, at its option, require a longer initial term of contract.

The Company shall not be required to supply capacity in excess of that contracted for except by mutual agreement.

Notwithstanding any contractual requirement for longer than 90 days' notice to discontinue service, customers may elect to take service from a qualified CRES Provider, pursuant to the terms of the appropriate Open Access Distribution Schedule, by providing 90 days' written notice to the Company. If upon completion of such 90-day notice period, the customer has not enrolled with a qualified CRES Provider, then the customer must continue to take service under the Company's standard service schedules for a period of not less than twelve (12) consecutive months.

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

(Continued on Sheet No. 23-5)

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Issued by
Kevin E. Walker, President
AEP Ohio

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P.U.C.O. NO. 18

SCHEDULE GS-4
(General Service - Large)Metered Voltage Adjustment (cont'd)

quantities. In such cases the metered KWH, KW and KVAR values will be adjusted for billing purposes. If the Company elects to adjust KWH, KW and KVAR based on multipliers, the adjustment shall be in accordance with the following:

- (a) Measurements taken at the low-side of a customer-owned transformer will be multiplied by 1.01.
- (b) Measurements taken at the high-side of a Company-owned transformer will be multiplied by 0.98.

Delayed Payment Charge

Bills are due and payable in full by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 21 days after the mailing of the bill. On accounts not so paid, customer shall pay Company interest on the unpaid amount at the rate of 8% per annum from the due date to the date of payment of said bills.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

Contracts under this schedule will be made for an initial period of not less than 2 years and shall remain in effect thereafter until either party shall give at least 1 year's written notice to the other of the intention to discontinue service under the terms of this schedule.

A new initial contract period will not be required for existing customers who increase their contract requirements after the original initial period unless new or additional facilities are required. The Company may, at its option, require a longer initial term of contract.

(Continued on Sheet No. 24-4)

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AEP Ohio

P.U.C.O. NO. 18

SCHEDULE IRP-D
(Interruptible Power - Discretionary)Metered Voltage Adjustment (Cont'd)

- (a) Measurements taken at the low-side of a customer-owned transformer will be multiplied by 1.01.
- (b) Measurements taken at the high-side of a Company-owned transformer will be multiplied by 0.98.

Delayed Payment Charge

Bills are due and payable by in full by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 21 days after the mailing of the bill. On accounts not so paid, customer shall pay Company interest on the unpaid amount at the rate of 8% per annum from the due date to the date of payment of said bills.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

A customer's plant is considered as one or more buildings which are served by a single electrical distribution system provided and operated by customer. When the size of the customer's load necessitates the delivery of energy to the customer's plant over more than 1 circuit, the Company may elect to connect its circuits to different points on the customer's system irrespective of contrary provisions in the Terms and Conditions of Service.

Customers with cogeneration and/or small power production facilities which qualify under Section 210 of the Public Utility Regulatory Policies Act of 1978 shall take service under Schedule COGEN/SPP, Schedule NEMS, or by special agreement with the Company. All other customers having sources of electrical energy supply other than the Company shall take service under Schedule SBS or Schedule NEMS.

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Kevin E. Walker, President
AEP Ohio

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P.U.C.O. NO. 18

SCHEDULE SBS
(Standby Service)Delayed Payment Charge

Bills are due and payable in full by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 21 days after the mailing of the bill. On accounts not so paid, an additional charge of 5% of the unpaid balance will be made.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

Contracts under this schedule will be made for an initial period of not less than 1 year and shall continue thereafter until either party has given 6 months' written notice to the other of the intention to terminate the contract. The Company will have the right to make contracts for initial periods longer than 1 year.

A 6-month advance written request is required for any change in supplemental, backup or maintenance service requirements, except for the initial standby service contract. All changes in the standby service contract shall be effective on the contract anniversary date. The Company shall either concur in writing or inform the customer of any conditions or limitations associated with the customer's request within 60 days.

Notwithstanding any contractual requirement for longer than 90 days' notice to discontinue service, customers may elect to take service from a qualified CRES Provider, pursuant to the terms of the applicable Open Access Distribution Schedule, by providing 90 days' written notice to the Company. If upon completion of such 90-day notice period, the customer has not enrolled with a qualified CRES Provider, then the customer must continue to take service under the Company's standard service schedules for a period of not less than twelve (12) consecutive months.

(Continued on Sheet No. 27-9)

Filed pursuant to Order dated April 10, 2006 in Case No. 05-376-EL-UNC

Issued:

Effective: Cycle 1 June 2006

Issued by
Kevin E. Walker, President
AEP Ohio

OHIO POWER COMPANY

1st Revised Sheet No. 40-3
Cancels Original Sheet No. 40-3

P.U.C.O. NO. 18

SCHEDULE OL
(Outdoor Lighting)

Applicable Riders (Cont'd)

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Monthly Kilowatt-hour Usage

The monthly kilowatt-hours for each lamp type are as follows:

Lamp	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2,500 Inc.	79	67	57	57	51	45	48	55	60	71	75	81
4,000 Inc.	124	104	104	89	79	71	76	86	94	111	116	126
7,000 Merc.	91	76	76	65	58	52	55	63	69	81	86	92
20,000 Merc.	199	167	167	142	127	114	121	138	152	178	188	203
50,000 Merc.	477	400	400	340	304	272	291	331	363	427	449	486
9,000 Sod.	51	43	43	36	32	29	31	35	39	45	48	52
22,000 Sod.	106	89	89	76	68	61	65	74	81	95	100	108
50,000 Sod.	210	176	176	150	134	120	128	146	160	188	198	214
17,000 M. Hal.	127	106	106	90	81	72	77	88	96	113	119	129
29,000 M. Hal.	199	167	167	142	127	114	121	138	152	178	188	203

Term of Contract

Annual.

Notwithstanding any contractual requirement for longer than 90 days' notice to discontinue service, customers may elect to take service from a qualified CRES Provider, pursuant to the terms of the applicable Open Access Distribution Schedule, by providing 90 days' written notice to the Company. If upon completion of such 90-day notice period, the customer has not enrolled with a qualified CRES Provider, then the customer must continue to take service under the Company's standard service schedules for a period of not less than twelve (12) consecutive months.

(Continued on Sheet No. 40-4)

Filed pursuant to Order dated April 10, 2006 in Case No. 05-376-EL-UNC

Issued:

Effective: Cycle 1 June 2006

Issued by
Kevin E. Walker, President
AEP Ohio

P.U.C.O. NO. 18

SCHEDULE SL
(Street Lighting)Monthly Rates (Cont'd)

	Generation	Transmission	Distribution	Total
On Wood Pole:				
High Pressure Sodium:				
9,000 lumen	1.65	0.02	9.40	11.07
16,000 lumen	3.80	0.03	9.45	13.28
22,000 lumen	4.59	0.04	9.96	14.59
50,000 lumen	9.17	0.07	10.26	19.50
On Metal Pole:				
High Pressure Sodium:				
9,000 lumen	12.09	0.02	24.31	36.42
16,000 lumen	12.99	0.03	24.36	37.38
22,000 lumen	13.88	0.04	24.87	38.79
50,000 lumen	16.55	0.07	25.17	41.79
Multiple Lamps On Metal Pole:				
High Pressure Sodium:				
9,000 lumen	7.49	0.02	13.85	21.36
16,000 lumen	8.30	0.03	13.89	22.22
22,000 lumen	9.18	0.04	14.41	23.63
50,000 lumen	11.86	0.07	14.71	26.64
Post Top Unit*				
9,000 lumen High Pressure Sodium	5.50	0.02	8.69	14.21

*Available where customer pays for trenching and backfilling or provides for underground ducts designed to Company specifications.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
iGCC Cost Recovery Charge Rider	76-1

(Continued on Sheet No. 41-4)

Filed pursuant to Order dated April 10, 2006 in Case No. 05-376-EL-UNC

Issued:

Effective: Cycle 1 June 2006

Issued by
Kevin E. Walker, President
AEP Ohio

OHIO POWER COMPANY

1st Revised Sheet No. 42-2
Cancels Original Sheet No. 42-2

P.U.C.O. NO. 18

SCHEDULE EHG
(Electric Heating General)

Applicable Riders (Cont'd)

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

A written agreement may, at the Company's option, be required.

Notwithstanding any contractual requirement for longer than 90 days' notice to discontinue service, customers may elect to take service from a qualified CRES Provider, pursuant to the terms of the applicable Open Access Distribution Schedule, by providing 90 days' written notice to the Company. If upon completion of such 90-day notice period, the customer has not enrolled with a qualified CRES Provider, then the customer must continue to take service under the Company's standard service schedules for a period of not less than twelve (12) consecutive months.

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

This schedule is available only to customers where at least 50% of the electrical load is located inside of buildings which are electrically heated.

When church buildings are electrically heated and are served through a separate meter and billed separately, the above energy rate applies, but there shall be no demand charge.

Customers with cogeneration and/or small power production facilities which qualify under Section 210 of the Public Utility Regulatory Policies Act of 1978 shall take service under Schedule COGEN/SPP, Schedule NEMS, or by special agreement with the Company. All other customers having sources of electrical energy supply other than the Company shall take service under Schedule SBS or Schedule NEMS.

Filed pursuant to Order dated April 10, 2006 in Case No. 05-376-EL-UNC

Issued:

Issued by
Kevin E. Walker, President
AEP Ohio

Effective: Cycle 1 June 2006

P.U.C.O. NO. 18

SCHEDULE EHS
(Electric Heating Schools)

THIS SCHEDULE IS IN PROCESS OF ELIMINATION AND IS WITHDRAWN EXCEPT FOR THE PRESENT INSTALLATION OF CUSTOMERS RECEIVING SERVICE HEREUNDER AT PREMISES SERVED ON THE EFFECTIVE DATE HEREOF.

Availability of Service

Available to primary and secondary schools for which the entire electrical requirement is furnished by the Company, and such electrical requirement includes all cooling (if any) in the entire school and electric heating for all of (or in addition to) the school. This schedule shall remain in effect through the last billing cycle of December 2006.

Monthly Rate (Schedule Code 631)

Where every energy requirement, including, but not limited to, heating, cooling and water heating, of an individual school building or an addition to an existing school building including college and university buildings, is supplied by electricity furnished by the Company, all energy for that school building or addition shall be billed at the following Energy Charge:

	Generation	Transmission	Distribution	Total
Energy Charge (\$ per KWH)	1.43592	0.55447	0.19097	2.18136

Minimum Charge

The minimum monthly charge under this schedule shall be the sum of the distribution charge of \$12.80 per month and any applicable riders.

Payment

Bills are due and payable in full by mail, checkless payment plan, electronic payment plan or at an authorized payment agent of the Company within 15 days after the mailing of the bill.

Applicable Riders

Monthly Charges computed under this schedule shall be adjusted in accordance with the following applicable riders:

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

(Continued on Sheet No. 43-2)

Filed pursuant to Order dated April 10, 2006 in Case No. 05-376-EL-UNC

Issued:

Issued by
Kevin E. Walker, President
AEP Ohio

Effective: Cycle 1 June 2006

OHIO POWER COMPANY

1st Revised Sheet No. 44-2
Cancels Original Sheet No. 44-2

P.U.C.O. NO. 18

SCHEDULE SS
(School Service)

Applicable Riders (Cont'd)

Rider	Sheet No.
Universal Service Fund Rider	60-1
Energy Efficiency Fund Rider	61-1
KWH Tax Rider	62-1
Gross Receipts Tax Credit Rider	63-1
Property Tax Credit Rider	64-1
Municipal Income Tax Rider	65-1
Franchise Tax Rider	66-1
Regulatory Asset Charge Rider	67-1
Provider of Last Resort Charge Rider	69-1
Transmission Cost Recovery Rider	75-1
IGCC Cost Recovery Charge Rider	76-1

Term of Contract

A written agreement may, at the Company's option, be required.

Notwithstanding any contractual requirement for longer than 90 days' notice to discontinue service, customers may elect to take service from a qualified CRES Provider, pursuant to the terms of the applicable Open Access Distribution Schedule, by providing 90 days' written notice to the Company. If upon completion of such 90-day notice period, the customer has not enrolled with a qualified CRES Provider, then the customer must continue to take service under the Company's standard service schedules for a period of not less than twelve (12) consecutive months.

Special Terms and Conditions

This schedule is subject to the Company's Terms and Conditions of Service.

This schedule shall not apply to individual residences nor to those facilities which normally are not a part of or directly associated with primary and secondary school, college and university functions.

Customer shall furnish Company upon request information necessary to determine the enclosed area of a building or buildings to be used for billing purposes hereunder.

Customers with cogeneration and/or small power production facilities which qualify under Section 210 of the Public Utility Regulatory Policies Act of 1978 shall take service under Schedule COGEN/SPP, Schedule NEMS, or by special agreement with the Company. All other customers having sources of electrical energy supply other than the Company shall take service under Schedule SBS or Schedule NEMS.

Filed pursuant to Order dated April 10, 2006 in Case No. 05-376-EL-UNC

Issued:

Issued by
Kevin E. Walker, President
AEP Ohio

Effective: Cycle 1 June 2006

P.U.C.O. NO. 18

IGCC COST RECOVERY CHARGE RIDER

Effective Cycle 1 June 2006, all customer bills subject to the provisions of this Rider, including any bills rendered under special contract, shall be adjusted by the IGCC Cost Recovery Charge per KWH as follows:

Schedule	¢/KWH
RS, RS-ES, RS-TOD and RDMS	0.05200
GS-1	0.05872
GS-2 and GS-TOD	0.06006
GS-3	0.04313
GS-4 and IRP-D	0.03523
EHG	0.06396
EHS	0.08274
SS	0.06564
OL	0.01270
SL	0.01266
SBS	0.04197

This temporary Rider shall remain in effect for twelve consecutive billing months through the final billing cycle of May 2007.

Filed pursuant to Order dated April 10, 2006 in Case No. 05-376-EL-UNC

Issued:

Issued by
Kevin E. Walker, President
AEP Ohio

Effective: Cycle 1 June 2006

OHIO POWER COMPANY

1st Revised Sheet No. 1-2D
Cancels Original Sheet No. 1-2D

P.U.C.O. NO. 18

SCHEDULE
CROSS REFERENCE

Generation, Transmission, Distribution Service	Sheet No.	Distribution Service Only	Sheet No.
RIDERS		RIDERS	
Universal Service Fund	60-1	Universal Service Fund	60-1D
Energy Efficiency Fund	61-1	Energy Efficiency Fund	61-1D
KWH Tax	62-1	KWH Tax	62-1D
Gross Receipts Tax	63-1	Gross Receipts Tax	63-1D
Property Tax Credit	64-1		
Municipal Income Tax	65-1	Municipal Income Tax	65-1D
Franchise Tax	66-1	Franchise Tax	66-1D
Regulatory Asset Charge	67-1	Regulatory Asset Charge	67-1D
		Residential Shopping Incentive Credit Rider	68-1D
Provider of Last Resort Charge	69-1	Provider of Last Resort Charge	69-1
Electronic Transfer	70-1	Electronic Transfer	70-1D
Emergency Curtailable Service	71-1-71-3		
Price Curtailable Service	72-1-72-3		
Transmission Cost Recovery	75-1		
IGCC Cost Recovery Charge	76-1		

Filed pursuant to Order dated April 10, 2006 in Case No. 05-376-EL-UNC

Issued:

Effective: Cycle 1 June 2006

Issued by
Kevin E. Walker, President
AEP Ohio

Attachment B

Proposed bill message for Columbus Southern Power customers:

On March 18, 2005 AEP Ohio filed an application with the PUCO to recover pre-construction costs estimated to be \$23.7 million associated with the construction and operation of an Integrated Gasification Combined Cycle (IGCC) electric generating facility. Costs of the IGCC facility are to be shared equally between the two AEP Ohio companies. On April 10, 2006 the PUCO approved the recovery of these costs through a by-passable generation surcharge. The surcharge will be effective for the billing months of June 2006 through May 2007. For a 1000 kWh residential customer this results in an increase of 77 cents per month.

Proposed bill message for Ohio Power customers:

On March 18, 2005 AEP Ohio filed an application with the PUCO to recover pre-construction costs estimated to be \$23.7 million associated with the construction and operation of an Integrated Gasification Combined Cycle (IGCC) electric generating facility. Costs of the IGCC facility are to be shared equally between the two AEP Ohio companies. On April 10, 2006 the PUCO approved the recovery of these costs through a by-passable generation surcharge. The surcharge will be effective for the billing months of June 2006 through May 2007. For a 1000 kWh residential customer this results in an increase of 52 cents per month.

August 3, 2005 – 6:30 p.m.
Canton City Hall
Council Chambers, 1st Floor
218 Cleveland Ave. SW
Canton, OH 44702

August 4, 2005 – 6:30 p.m.
Meigs High School
Cafeteria
42091 Pomeroy Pike
Pomeroy, OH 45769

All interested parties will be given an opportunity to be heard. Further information may be obtained by contacting the Public Utilities Commission of Ohio at 180 East Broad Street, Columbus, Ohio 43215 or by contacting the Commission's Public Interest Center at 614-466-3292 in the Columbus area or toll free at 1-800-686-7826 or toll free for the hearing impaired at 1-800-686-1570.

The notice will be published once a week for two consecutive weeks prior to the scheduled dates of the three local public hearings. The notice will not appear in the legal notices section of the newspapers.

The Companies request that the Commission approve the proposed notice.

Respectfully submitted,



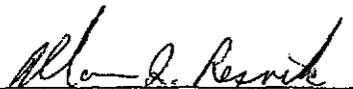
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E-mail: dconway@porterwright.com

COUNSEL FOR COLUMBUS SOUTHERN
POWER COMPANY AND OHIO POWER
COMPANY

CERTIFICATE OF SERVICE

Columbus Southern Power Company's and Ohio Power Company's Proposed Notice for Public Hearings was served by electronic mail and by First-Class U.S. Mail upon counsel identified below for all parties of record this 8th day of June, 2005.


Marvin I. Resnik

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69

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PUCO

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application)
of Columbus Southern Power Company) Case No. 05-376-EL-UNC
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)

COLUMBUS SOUTHERN POWER COMPANY'S AND
OHIO POWER COMPANY'S RESPONSE TO
INDUSTRIAL ENERGY USERS-OHIO'S
OBJECTIONS TO TARIFF FILING

On April 20, 2006, Columbus Southern Power Company and Ohio Power Company (the Companies) filed their compliance tariffs to implement Phase I cost recovery as authorized by the Commission in its April 10, 2006 Opinion and Order in this proceeding. The next day, the Industrial Energy Users-Ohio (IEU) filed a set of objections to the compliance tariffs.

As noted in the Companies' tariff filing, the proposed Phase I surcharges had been set out in the pre-filed Supplemental Testimony of the Companies' witness, David Roush. Mr. Roush appeared at the hearing and was cross-examined. (Tr. Vol. IV, pp. 51-66). Based on the Commission's Opinion and Order and the record in this case, IEU's objections to the compliance tariffs should be denied and the compliance tariffs should be approved.

It is clear from IEU's filing that IEU's objections relate to its disagreement with the Commission's Opinion and Order, rather than with the surcharge levels proposed by the Companies or whether the compliance tariffs are consistent with the Opinion and Order. IEU argues that "the Commission is without authority to increase rates for the recovery of . . . Phase I costs . . ." (IEU Objections, p. 1). IEU goes on to urge the Commission "to abide by Ohio law, reject AEP's tariff proposal and acknowledge on its own initiative that the Opinion

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and Order issued in this proceeding on April 10, 2006 is both unlawful and unreasonable.” (Id.) These broad attacks on the Commission’s Opinion and Order are misplaced at this stage of the proceeding. While such attacks might arise in an application seeking rehearing of the April 10, 2006 Opinion and Order, they do not present a basis for rejecting the compliance tariffs.

IEU’s eight specific objections do not advance its position either. IEU objects that the proposed tariff provides no mechanism to reconcile estimated and actual Phase I costs and recoveries. IEU is mistaken. In his pre-filed testimony Companies’ witness, Craig Baker, testified that the net of over- and under-recovered Phase I revenues will be subtracted from or added to the Construction Work in Process accounts which will be used in determining the IGCC Recovery Factor in Phase III. (Companies’ Ex. 2, p. 5). Therefore, a reconciliation mechanism exists in the Companies’ proposal.

IEU also objects that the compliance tariff does not provide a refund obligation in the event the Companies’ IGCC proposal is found to be unreasonable or unlawful. In a related objection, IEU argues that Phase I cost recoveries should be refunded if no benefits for the Companies’ customers materialize. IEU misses the point. Phase I recovery is not dependent on the eventual construction and operation of the Companies’ proposed IGCC facility. Instead, as the Commission correctly noted, Phase I cost recovery is linked to the investigation, analysis, evaluation and development of a realistic plan to address concerns raised in this case by IEU and other parties. (Opinion and Order, p. 20). These activities have real costs and, as the Companies have stated publicly, they must have a clear path to recovery if they are to go forward with an IGCC facility in Ohio.

IEU argues that the surcharges should not be applied to the generation rate component since the Commission has linked construction of an IGCC facility to the Companies’ distribution

service obligation. The Companies proposed that Phase I surcharges would be bypassable. The proper way to accomplish that objective is to place the surcharge on the generation rate component so that the surcharge is not assessed on shopping customers. Further, the Companies proposed that Phase I recoveries would serve to reduce the amount of possible additional generation rate increases permitted under their Rate Stabilization Plans. That aspect of the Companies' proposal would not make sense if the surcharge were applied to the distribution rate component.

IEU also objects on the basis that the Commission's Opinion and Order is unclear regarding when and how Phase I costs should be recovered. This objection actually relates to the Commission's Opinion and Order, not to the compliance tariff. Nonetheless, to clear up any confusion under which IEU may be laboring, the Companies note that while the compliance filing could not become effective in January 2006 as they had proposed they have adhered to the 12-month recovery period they had proposed and have suggested commencement as soon as possible while still giving the Commission an opportunity to review the Phase I surcharges and to order their effective date.

IEU's remaining objections concern: the absence of a link between authorization of the surcharge and the Companies' need for rate relief; the Companies' funding of their IGCC facility; and allocation of Phase I costs to the Companies' affiliates in the AEP-East region. Again, these objections relate to the Commission's Opinion and Order and not to the tariff filed in compliance with that Opinion and Order. These objections are not a proper basis for rejecting the compliance tariff.

IEU has not presented any objections which merit rejection of the compliance filing. In the main, its objections are to the Opinion and Order. In fact, IEU has not presented a single

instance in which the compliance tariff is inconsistent with the Opinion and Order. The Commission should approve the compliance filing and permit the proposed surcharges to become effective with bills rendered beginning Cycle 1, June 2006.

Respectfully submitted,



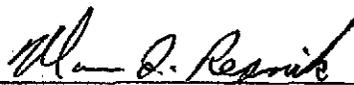
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COUNSEL FOR COLUMBUS SOUTHERN
POWER COMPANY AND OHIO POWER
COMPANY

CERTIFICATE OF SERVICE

I hereby certify that a copy of Columbus Southern Power Company's and Ohio Power Company's Response To Industrial Energy Users-Ohio's Objections To Tariff Filing were served by U.S. Mail and electronic mail upon counsel identified below for all parties of record this 28th day of April, 2006.


Marvin I. Resnik

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FILE

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)
Recover Costs Associated with the)
Construction and Ultimate Operation of an)
Integrated Gasification Combined Cycle)
Electric Generating Facility.)

Case No. 05-376-EL-UNC

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OBJECTIONS OF THE INDUSTRIAL ENERGY USERS-OHIO
TO THE TARIFF FILING BY COLUMBUS SOUTHERN POWER COMPANY
AND OHIO POWER COMPANY

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April 21, 2006

Attorneys for Industrial Energy Users-Ohio

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**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)
Recover Costs Associated with the)
Construction and Ultimate Operation of an)
Integrated Gasification Combined Cycle)
Electric Generating Facility.)

Case No. 05-376-EL-UNC

**OBJECTIONS OF THE INDUSTRIAL ENERGY USERS-OHIO
TO THE TARIFF FILING BY COLUMBUS SOUTHERN POWER COMPANY
AND OHIO POWER COMPANY**

The Industrial Energy Users-Ohio (IEU-Ohio) hereby objects to the proposed tariff and rate increase filing submitted by Columbus Southern Power Company ("CSP") and Ohio Power Company ("OP") in this proceeding on April 20, 2006. As IEU-Ohio demonstrated and explained during the litigation and briefing portion of this proceeding, the Commission is without authority to increase rates for the recovery of what have been characterized as Phase I costs estimated by CSP and OP (collectively referred to as "AEP") to be \$23.7 million. IEU-Ohio incorporates herein its prior arguments regarding the Commission's authority and urges the Commission to abide by Ohio law, reject AEP's tariff proposal and acknowledge on its own initiative that the Opinion and Order issued in this proceeding on April 10, 2006 is both unlawful and unreasonable.

In addition to the legal and other positions which IEU-Ohio has previously advanced in this proceeding, the Commission must reject the proposed tariff filing because, among other reasons:

- The proposed surcharges are based on estimated costs and the proposed tariffs have no mechanism to reconcile estimated with actual costs or ensure that the proposed surcharges do not produce excess revenue as a function of variances tied to differences between assumed and actual kWh sales levels.
- The proposed surcharges and tariff sheets do not include an obligation to refund any collection of Phase I costs in the event that the Commission, upon further examination, or the Ohio Supreme Court on appeal, finds that AEP's IGCC proposal is without merit, is unreasonable or unlawful.
- The proposed surcharges apply to generation rates while the Commission's April 10, 2006 Opinion and Order treats the costs as related to the distribution function. The logic of the Commission's April 10, 2006 Opinion and Order requires that any surcharge be applied to distribution charges not generation service charges. [Recovery of the Phase I costs on a per kWh basis also works against Ohio's economic retention and development efforts at a time when Ohio is losing jobs at a record setting pace.]
- The proposed rate-increasing surcharges have not been tested against any analysis of AEP's need for rate relief, there has been no showing that AEP's existing rates are inadequate to provide a reasonable return and there has been no showing that the use of the funds produced by the surcharges are related to the provision of public utility service or the operation of used and useful property, facilities or equipment.
- The Commission's Opinion and Order of April 10, 2006 is so unclear about how and when AEP should be permitted to recover the Phase I costs that it is impossible to determine if AEP's proposed tariffs comply with said Opinion and Order. In this context, approval of AEP's proposed tariffs violates both procedural and substantive due process rights granted by Ohio's and the United States' Constitutions.
- There is nothing in the proposed tariffs that obligates AEP to hold the funds generated by the proposed surcharges in trust for a specific and dedicated use that will produce benefits for AEP's Ohio customers with an obligation that AEP refund such funds in the event that such benefits do not materialize.
- There is nothing in the proposed tariff sheets that obligates AEP to undertake good faith and proactive efforts to secure funding from other sources prior to imposing any surcharges on Ohio customers.
- There is nothing in the proposed tariffs that properly assigns or allocates the Phase I costs to the other non-Ohio affiliated operating companies in the AEP-East region in the context of affirmative representations by AEP

that its desire to proceed with the IGCC project is based on a need for generating capacity within such region, and no showing that such capacity is needed in Ohio. There is no good reason for Ohio to direct that Ohio customers alone pay these costs.

For the reasons explained above, IEU-Ohio urges the Commission to reject AEP's April 20, 2006 tariff filing.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Objections of the Industrial Energy Users-Ohio to the Tariff Filing by Columbus Southern Power Company and Ohio Power Company* was served upon the following parties of record this 21st day of April 2006, via electronic transmission, hand-delivery, or ordinary U.S. mail, postage prepaid.



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FILE

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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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.)

Case No. 05-376-EL-UNC

REPLY BRIEF OF INDUSTRIAL ENERGY USERS-OHIO

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October 11, 2005

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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)
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REPLY BRIEF OF INDUSTRIAL ENERGY USERS-OHIO

I. INTRODUCTION

In accordance with the schedule established by Attorney Examiners Lesser and See, Industrial Energy Users-Ohio ("IEU-Ohio") submits its Reply Brief for consideration by the Public Utilities Commission of Ohio ("Commission").

IEU-Ohio's Reply Brief focuses on claims made in the Initial Briefs of Columbus Southern Power Company ("CSP") and Ohio Power Company ("OP") [collectively, "Companies" or American Electric Power Company ("AEP")] and the Commission Staff ("Staff") without being redundant.¹ Any failure by IEU-Ohio to specifically address a proposal by any of the parties within this proceeding is not an indication that IEU-Ohio

¹ On September 20, 2005, parties with diverse interests and stakes in this proceeding filed Initial Briefs, including: the Office of the Ohio Consumers' Counsel ("OCC"), the Ohio Energy Group ("OEG"), the International Brotherhood of Electrical Workers Local #972, United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada Local #168, Parkersburg-Marietta Building and Construction Trades Council AFL-CIO and Ironworkers Local #787 (collectively, "Unions"), Baard Generation, LLC, Constellation Energy Commodities Group, Inc. and Constellation NewEnergy, Inc. ("Constellation"), Calpine Corporation, Lima Energy Company, FirstEnergy Solutions Corporation, Direct Energy Services, LLC, Ohio Partners for Affordable Energy ("OPAE"), Staff, Industrial Energy Users-Ohio ("IEU-Ohio"), and Columbus Southern Power Company and Ohio Power Company (collectively, "AEP"). Most of the matters raised in AEP's and Staff's Initial Briefs have been addressed in combination by the other parties in this proceeding in their Initial Briefs. Accordingly, in this Reply Brief, IEU-Ohio will attempt to avoid redundancy where possible.

has altered its position regarding the proposal contained in AEP's Application or that any unaddressed position has merit.

Before getting into specific issues contested in this proceeding, IEU-Ohio urges the Commission to consider how this case came to be, how the case has played out and the bigger picture implications of accepting the bait that AEP asks the Commission to use to hook Ohio retail customers. The Companies' Initial Brief does little more than repeat unsupported assertions in the Companies' prefiled testimony. The Companies appear to have made a strategic decision to withhold a reasoned examination of the conflicts between their assertions and the law or evidence perhaps seeking advantage by effectively eliminating any opportunity for the other parties in this proceeding to set the record straight through their Reply Briefs. The Companies were free to make this choice but the Companies' tactic highlights one of the fundamental problems in this proceeding: the problem that arises from reliance on an adversarial regulatory process to test the claims made by a utility intent on turning captive customers into captive investors and guarantors against AEP's business and financial risks.

If the Companies sought capital or guarantees against risk from the marketplace, they would have an ***affirmative obligation*** to tell the truth and nothing but the truth and disclose all information that might reasonably and materially affect an evaluation of the investment opportunity.² The Companies could not present guesstimated cost information for a claimed 30 or 40-year useful life of an asset while harboring

² The Securities Act of 1933 includes stringent penalties that apply to any person that makes an untrue statement of a material fact or fails to disclose a material fact the disclosure of which was required to make a statement not misleading. Section 11 of this Act also authorizes suits in courts of law and equity against a variety of persons including "every accountant, engineer, or appraiser, or any person whose profession gives authority to a statement made by him, who has with his consent been named as having prepared or certified any part of the registration statement, or as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement in such registration statement, report, or valuation, which purports to have been prepared or certified by him." See 15 U.S.C. § 77a *et seq.*

information that indicates that the useful life might really be something substantially less. The Companies could not claim that their favored approach for the use of proceeds from a stock issuance involves proven technologies when none of the components have been proven to work together. The Companies could not claim that the output of a proposed generating asset would be used to meet the service needs of retail customers in Ohio while knowing that existing affiliate contracts and current regional transmission organization ("RTO") requirements make any dedication to this purpose impossible. The Companies could not claim on one page of the prospectus that the output of proposed generating assets would be used to meet unanticipated demand and on the next page show cost-per-kWh estimates predicated on high capacity factors and baseload utilization. The Companies could not encourage investors to bank on environmental benefits without disclosing the additional capital cost, operating costs and efficiency penalties that must be incurred to produce such benefits.

Any failure to affirmatively disclose information material to the investment decision would subject the Companies and their managers to civil and criminal penalties. Tr. Vol. VI at 127-131. There would be no opportunity to hold back information to gain an advantage over a potential investor and violations would carry strong penalties. Investors would not be subject to prejudice as a result of their failure to use just the right words in an information request. The Companies would have no lawful opportunity to redact documents to keep material information away from the investing public. Investors would not be condemned to rely on speculation advanced by the Companies as though the speculation was a preview of a certain future. Potential

investors always have the opportunity and the right to bypass an investment or risk-underwriting opportunity.

In addition to the law and evidence, the stark contrast between what the Companies would be obligated to do if they sought capital and risk guarantees from the marketplace and what the Companies have done to secure the relief they seek in this proceeding compels a rejection of the Companies' proposal. The Companies' proposal is nothing less than a request that Ohio, through the Commission, award an unbid contract involving billions of dollars through procedures that defy due diligence and encourage contract beneficiaries to withhold or to favorably characterize forward looking statements without revealing that the statements are the product of aggressive assumptions and speculation about the future. Ohio's recent and decidedly embarrassing experience with investments made through unbid contracts, investments made without due diligence, investments made without the imposition of measurable accountability on the managers of the investments and investments "encouraged" by government agencies or well intended government officials provide lessons that apply here.

The Reply Brief that American Municipal Power-Ohio ("AMP-Ohio") filed in this proceeding on October 7, 2005 shows the potential consequences – unintended, no doubt – of the "encouragement" the Companies believe they received from the Commission to transform captive customers into captive investors. AMP-Ohio's Reply Brief indicates that AMP-Ohio asked AEP to participate in an IGCC project and expressed a willingness to assume a portion of the risks of an investor. AMP-Ohio Reply Brief at 4. AMP-Ohio's Reply Brief indicates that AEP seemed interested at one point in partnering with AMP-Ohio but cooled to the idea. *Id.* AMP-Ohio's Reply Brief

indicates that the Commission's encouragement may have chilled AEP's interest in alternatives like the one presented by AMP-Ohio. It is easy to see how a chill may have fallen on the AEP and AMP-Ohio discussions. Why should AEP bother itself to work things out with AMP-Ohio so long as AEP had reason to believe that the Commission might be willing to transform captive customers into captive investors while providing AEP with a return of and on investment (used and useful or not) as though AEP had skin in the game?

Regardless of the result that IEU-Ohio believes is required by the law and the evidence, the Commission must reject AEP's invitation to transform captive customers into captive investors because these recent lessons confirm that nothing good can come from the transformation AEP proposes.

The Initial Brief of the Staff presents a different type of problem, a problem that also is a byproduct of the Commission's processes. After presenting witnesses who testified that the Staff did not have a position regarding AEP's proposal,³ the Staff has used the briefing stage to roll out a position. The position is rolled out in the form of a conclusion that comes with no meaningful reasoning and no citation to the record or the law. The Staff has used its privileged position in Commission proceedings – a position that does not subject the Staff to discovery – to effectively deprive all other parties of their right to cross-examine the Staff and to rebut the previously undisclosed position of the Staff.

Beyond the due-process-denying-consequence of the Staff's untimely revelation of its position, the Staff's position is also fatally flawed. In simple terms, the Staff concludes that Ohio customers should be required to send more money in the form of

³ See Staff Exhibit 1 at 2; Staff Exhibit 2 at 2; Staff Exhibit 3 at 1-2; Tr. Vol. V at 241; Tr. Vol. VI at 29, 78-79.

higher prices to AEP so that AEP might be able to prove that its Phase II and Phase III installments are warranted. The fact that the Staff appears reluctant to condemn (at least for now) the Companies' Ohio customers to shoulder the burdens presented by the Companies' Phase II and Phase III charges is perhaps better than giving in to AEP's total demand. But, the Staff's untimely position is nonetheless unlawful and unreasonable.

II. PLEASE DO NOT FEED THE POLR BEARER

IEU-Ohio and others discussed in their Initial Briefs the legal and factual defects in the Companies' and Staff's concocted stories about the provider of last resort ("POLR") obligation and the results the Companies and now the Staff seek to draw from their concocted stories. Try as they might, neither the Companies nor the Staff can weave a story strong enough to bypass Ohio law which states that the Companies' compensation as POLR bearer is provided through the charges that apply to the standard service offer ("SSO"). POLR and SSO are not separate and distinct obligations of an electric distribution utility ("EDU").

The Commission describes "POLR" in conjunction with rules adopted by the Commission to address the SSO obligation:

Standard service offer is the provision of a market-based variable-rate firm generation service offered by the EDU as the provider of last resort.

Provider of last resort is the statutory responsibility of the EDU to provide electric supply service to its customers on a comparable and nondiscriminatory basis within its certified territory. This responsibility may be fulfilled by the EDU providing standard service offer and by providing all other retail electric services necessary to maintain essential electric service to consumers.

Rule 4901:1-35-03, Appendix A, Ohio Administrative Code.⁴

⁴ Section 4901:1-35-02(C), Ohio Administrative Code, does permit an EDU to propose alternatives to the SSO approaches spelled out in the Commission's rules but only if there is substantial support from a number of interested stakeholders.

Pursuant to Section 4928.14, Revised Code, the SSO is a physical generation service available at a market-based price. Section 4928.14(A), Revised Code, states that an EDU must provide consumers, "on a **comparable and nondiscriminatory basis within its certified territory**, a market-based standard service offer of all **competitive retail electric services necessary to maintain essential electric service** to consumers, **including a firm supply of electric generation service.**" Section 4928.14(C), Revised Code, states that the failure of a competitive retail electric service ("CRES") provider to provide retail electric generation service to customers within the certified territory of the EDU results in the CRES's customers defaulting to the utility's SSO until the customer chooses an alternative CRES provider. Neither the Revised Code nor the Ohio Administrative Code authorize the Commission to establish compensation for the generation service that EDUs provide to customers that are not served by a CRES through any means other than the SSO and nothing in *Constellation NewEnergy, Inc. v. Pub. Util. Comm'n*, 104 Ohio St.3rd 530 (2004) (hereinafter "*Constellation*") says otherwise.

Nobody in this proceeding is arguing that the Companies should not be compensated for being POLR bearers or meeting their SSO responsibilities. The issues framed by the Companies' proposal and the Staff's untimely revealed position involve questions about the level, method and form of the compensation proposed by the Companies. The proposed level and method of defining the compensation are tied to an unspecified costing methodology and special accounting treatment – not market-based prices. The proposed form of almost all of the compensation involves a non-bypassable adder that is attached to the Companies' distribution service – not the Companies' SSO. The non-bypassable aspect of the Companies' proposal also means

that customers will have no effective opportunity to benefit from the selection of the competitive bidding option available pursuant to Section 4928.14, Revised Code.

It is IEU-Ohio's and others' position that the level, method and form of the compensation sought by the Companies are unreasonable and unlawful irrespective of whether the Companies propose to meet their SSO obligations through the construction of new generating capacity (regardless of technology), the use of existing generating capacity or purchased power. Likewise, the objections uniformly raised in this proceeding by stakeholders who pay the bills are not objections to AEP's desire to move forward with a type of IGCC technology. Rather, these objections are rooted in the Companies' proposal to proceed with an experiment that may – if AEP's aggressive assumptions prove real – benefit AEP's owners, parties contracting with AEP and customers in several states while Ohio retail customers are left holding the bag if the wheels come off. To add insult to injury, the Companies and Staff persist with their concocted story about the implications of POLR in a proceeding where there has been no demonstration that the hypothetical IGCC generating assets are required, can be used or will be used to satisfy the Companies' POLR and SSO obligation. As IEU-Ohio explained in its Initial Brief, AEP has failed to demonstrate that the relief it seeks in this proceeding is rationally related to its POLR and SSO obligation.

The Companies and the Staff also seem to go out of their way to avoid a forthright description of the role of RTOs (in this case PJM) or an accurate description of the role PJM plays in making sure that there is adequate generating capacity in the region served by AEP and other Ohio utilities. Regardless of the meaning of *Constellation*, the Ohio Supreme Court did not have before it information on the

generation reliability and dispatch role of PJM because neither The Dayton Power and Light Company nor AEP were integrated into PJM until October 2004.⁵

IEU-Ohio read with interest the discussion in the Staff's Initial Brief on PJM's Reliability Pricing Model ("RPM") proposal, particularly in view of comments recently filed by the Commission in the proceeding dealing with PJM's RPM proposal before the Federal Energy Regulatory Commission ("FERC").⁶ As the Commission explained in its RPM comments, "[t]he existing PJM installed capacity market originally was developed to complement PJM's energy commodity market by providing electric loads a way to meet the **PJM-calculated reserve margin obligations** through a market-based process."⁷ According to these comments, the Commission is aware that PJM has established reserve margin obligations and that these obligations are imposed by PJM on all load serving entities including the Companies and any CRES provider operating in the Companies' service areas.

Staff witness Wissman understood and acknowledged PJM's role in ensuring sufficient generation to meet demand. Tr. Vol. V at 219. Ms. Wissman understood and acknowledged that PJM could and would direct the use of any IGCC plant built by the Companies to serve customers in other states in accordance with PJM's rules that pool all generating capacity subject to PJM's control for the benefit of load in the entire PJM

⁵ See AEP's press release, available via the Internet at: <http://www.aep.com/newsroom/newsreleases/default.asp?dbcommand=displayrelease&ID=1157>.

⁶ *P.J.M. Interconnection, L.L.C.*, FERC Docket No. EL05-148, *et al.*, *Comments of the Public Utilities Commission of Ohio* (October 6, 2005) (hereinafter "PUCO RPM Comments"), available online at: http://FERRIS.FERC.gov/idmws/file_list.asp?accession_num=20051006-5065. IEU-Ohio shares many of the concerns identified in the Commission's comments. But, the identification of problems with the RPM proposal of PJM does not have anything to do with the fact that PJM currently controls the rules that dictate the generating capacity reserve that must be held by the Companies or any CRES provider attempting to provide service to customers served by the Companies.

⁷ *Id.* at 5.

footprint⁸ even if, as the Staff's Initial Brief suggests, Ohio slaps a distribution label on a generation function. It is these realities that caused her to identify the need to modify the PJM requirements (among others) to ensure that the benefits of any IGCC plant were available exclusively to the Ohio customers who hold responsibility for the cost of the IGCC plant under the Companies' proposal. Staff Exhibit 1 at 9-10.

The understood and acknowledged requirements of PJM include requirements that all load serving entities hold adequate generating capacity, including reserve capacity to meet the needs of their customers. Tr. Vol. V at 226. Of course, holding generating capacity reserves involves costs. The evidence in this proceeding shows that the Companies' non-bypassable distribution rider will impose additional generating reserve costs on customers irrespective of whether they are being served by the Companies. Company Exhibit 2 at 11, 14-15. It is this aspect of the Companies' proposal that has been properly characterized as creating a barrier to entry for CRES suppliers and a barrier to exit (shopping) for the Companies' customers. The practical effect of the Companies' proposal imposes duplicative non-bypassable generating capacity payments on any shopping customers. As discussed in the Commission's comments on PJM's RPM proposal, the Companies' proposal may also impose duplicative payments on those customers served by the Companies because any generating capacity held by a "regulated" utility may not count towards meeting PJM's generating resource requirement.

If the Commission proceeds unwisely and over the objections of customers to establish a rigid mandatory and duplicative Ohio generating capacity obligation on top of that already required by PJM, it should also act to provide Ohio customers who are

⁸ *Id.* at 220.

burdened with these extra capacity obligations with an opportunity to release capacity into the secondary market. The Commission has made a very similar recommendation to FERC:

The PUCO suggests that if PJM insists in organizing a rigid mandatory capacity market, FERC should require PJM to set up a more formal capacity release market mechanism, not unlike that established for the interstate pipeline industry in FERC Order 636, where excess capacity can be resold by direct purchase or short term contract to an LSE requiring generating capacity by an LSE sitting on capacity commitments it does not need.⁹

Unless customers have the right to release duplicative capacity obligations that arise from Commission mandates and PJM requirements, Ohio's customers will be subjected to an undue prejudice for no good reason.

III. GENERATION IS DISTRIBUTION WHEN AEP SAYS SO

AEP suggests that its IGCC proposal, in which the distribution companies will own or control the hypothetical IGCC generating assets, is legally permissible. AEP asserts this position by reliance upon Section 4928.17(E), Revised Code, which states that the Commission's jurisdiction under Title 49, Revised Code, applies when generation assets are relied upon to provide transmission, ancillary and distribution service. Initial Brief of Columbus Southern Power Company and Ohio Power Company at 39 (hereinafter "AEP Brief").

Staff appears to buy into a similar theory by asserting that the Commission has jurisdiction over the distribution function including generation assets used for the purpose of meeting an EDU's SSO obligation. Post Hearing Brief Submitted on Behalf of the Staff of the Public Utilities Commission of Ohio at 9 (hereinafter, "Staff Brief"). In fact, Staff states that "AEP's application does not... represent an effort to re-regulate

⁹ PUCO RPM Comments at 16.

generation...." *Id.* Yet, Staff states that the Commission's authority over distribution is "entirely apart from electric generation service." *Id.*

On first blush, AEP's and the Staff's theories appear to fly in the face of Ohio law. It is hard to see how these theories can be sustained as a matter of law since the theories depend on establishing a new identity for the generating service component of Ohio's SSO. Assuming these theories can be implemented lawfully, then their logical implications dictate a broader form of relief than requested by the Companies or the Staff.

Under AEP's theory, if the hypothetical IGCC assets relied upon to provide a portion of its SSO obligation (which AEP calls "POLR service") are distribution assets by virtue of Section 4928.17(E), Revised Code, then all generating assets relied upon to provide SSO are as well. AEP's application of the law would subject all generating assets used to satisfy SSO obligations to the same conditions and would not allow AEP to selectively choose which generating assets relied upon to satisfy SSO obligations are subject to Section 4928.17(E), Revised Code, or priced based at "cost" rather than market-based prices. Indeed, if generation is really distribution, market prices have no place in the pricing formula that the Commission is obligated to apply. Also, if generation is really distribution, then the Companies are proposing to violate the distribution rate freeze adopted by the Commission in the Companies' Rate Stabilization Plan ("RSP"). *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of a Post Market Development Period Rate Stabilization Plan*, Case No. 04-169-EL-UNC, Opinion and Order (January 26, 2005) (hereinafter "RSP Order").

AEP's proposed relief produces prices that are a hybrid of market-based prices for some SSO generating capacity and cost-based prices for the IGCC portion. As Ms. Wissman agreed, the Companies' proposal involves adding a plus or minus sign followed by a cost-based IGCC value to the market-based price for SSO service. Tr. Vol. V at 210-212. The Companies' proposal contains selected aspects of a traditional ratemaking method, but without the safeguards of traditional ratemaking.

But, AEP's proposal presents the Commission with a pesky problem created by prior Commission rulings. As discussed in IEU-Ohio's Initial Brief, the Commission has ruled (over IEU-Ohio's objections and in favor of AEP) that cost-of-service is irrelevant to the establishment of SSO prices. RSP Order at 18. This ruling came in response to IEU-Ohio's argument that SSO is a regulated service and subject to evaluation under the just and reasonable standard in Section 4909.18, Revised Code. If AEP and Staff are really trying to get to a result that allows the Commission to affix a distribution function label to the generation service component of SSO as a means of returning to traditional regulation to establish SSO prices, then they may well be on to a result that IEU-Ohio would support (perhaps for different reasons) provided that the approach is uniformly applied to all generation assets (not just the ones that appear to have above-market costs) used to meet POLR and SSO requirements. IEU-Ohio would prefer, in any event, that this move be sanctioned by the Ohio General Assembly through modification to Ohio's electric restructuring legislation.

If AEP's and Staff's statutory interpretation should prevail, IEU-Ohio urges the Commission to immediately commence a full distribution rate case to establish cost-based SSO prices in accordance with traditional Ohio ratemaking practices and substitute such prices for those presently scheduled to become effective January 1,

2006 under AEP's RSP. Similar action should also be taken in the case of all other Ohio EDUs.

IV. AEP FAILED TO DEMONSTRATE THAT CONSTRUCTION OF AN IGCC FACILITY IS APPROPRIATE

AEP broadly quotes portions of the Whitepaper that was attached to the testimonies of AEP witnesses Mudd and Jasper as justification for its IGCC proposal. AEP Brief at 6-9. The record extensively demonstrates the flawed, incomplete and out-of-date bases for the assumptions made in order to justify AEP's IGCC proposal as sound and economically competitive when compared to other available technologies.¹⁰ While AEP continues to tout the alleged (but largely discredited) benefits of its proposed hypothetical IGCC facility, the fact remains that it is not willing to back the investment with shareholder dollars. AEP Brief at 23.¹¹ AEP's proposal continues to rely upon transforming captive distribution customers into captive investors to fund its IGCC ambitions. *Id.*

A. The Pre-Construction Process Has Not Resulted in a Complete Design, Let Alone a Reasonably Priced IGCC Facility and the Contracting Process is Incomplete

AEP suggests it is not settling on any point until it is convinced IGCC is the right choice for AEP and its customers. *Id.* AEP overlooks the obvious. Before it is settled whether the IGCC facility is a reasonable choice, before it is settled what a definite cost for the facility will be, before it is settled whether a turnkey contract can be agreed upon

¹⁰ IEU-Ohio will not repeat the arguments made in its Initial Brief but incorporates them herein by reference.

¹¹ Specifically, AEP argues:

As Mr. Walker has testified, this facility can be built in Ohio only if cost recovery is assured. (Companies' Ex. 1, p. 7). If the IGCC facility is placed in a separate corporate entity, there is no apparent way that cost recovery can be assured.

AEP Brief at 23.

that provides a reasonably priced IGCC facility that can operate consistent with assumptions, AEP wants guaranteed cost recovery.

Even Staff recognized that AEP's Application is premature. Staff's Initial Brief begins by asserting that much time has been wasted critiquing AEP's proposal inasmuch as there is "no point in this debate until AEP comes back with a detailed cost presentation." Staff Brief at 2.

It is unreasonable for the Commission to grant cost recovery for a proposed hypothetical IGCC facility at the stage in which AEP's proposal currently stands. AEP has done little to persuade the Commission or any reasonable person otherwise:

Admittedly, not all the factors are known today. The cost, an obviously critical factor, is being determined; future environmental requirements can today only be estimated; Ohio's future utility regulatory structure is subject to change. Faced with these uncertainties, the parties that oppose the Companies' proposal ask the Commission to consider whether customers can afford rates that would enable the Companies to proceed. The Companies contend that this is the wrong question. The question the Commission must address is whether, despite the uncertainties, the Companies, their customers and Ohio's economy can afford not to approve the Companies' proposal.

AEP Brief at 9-10 (emphasis in original). IEU-Ohio asserts that the answer to AEP's question is a resounding "yes!" The Commission, customers, and even AEP certainly can afford to straddle some other state's ratepayers with the yet-to-be-defined costs of AEP's hypothetical IGCC facility while Ohio customers continue to have access to the low-cost generation that has already been paid for, in part, by Ohio customers.

B. The Benefits of AEP's Hypothetical IGCC Facility Do Not Exist as Proposed in its Application

AEP has repeatedly touted the benefits of IGCC technology. IEU-Ohio has already addressed the fact that AEP's proposed hypothetical IGCC facility will not include many of the parts or functions necessary to obtain the benefits associated with

a generic IGCC facility. IEU-Ohio Brief at 22-41, 43-48. While IEU-Ohio will not repeat the discussion in its Initial Brief, there are several benefits identified by AEP in its Initial Brief that warrant discussion.

AEP claims that its pursuit of IGCC technology will "serve as a model to other utilities and regulatory bodies around the country and will preserve the Companies' low cost, reliable electricity." AEP Brief at 5. However, when questioned, AEP witness Walker was not aware of any provisions or arrangements to share or make public any information gained in the process of designing, developing or constructing AEP's hypothetical IGCC plant. Tr. Vol. I at 91. In fact, AEP and its IGCC partners, GE and Bechtel (collectively, the "Alliance") have gone to great lengths to prohibit any information they deem proprietary to be kept out of the public domain. Given this unwillingness to freely exchange information on the experience gained, it is unclear how AEP's pursuit of IGCC technology, if approved by this Commission, will be anything other than AEP and the Alliance using an IGCC experiment financed by Ohio customers to obtain a proprietary advantage in the market.

AEP also states that an IGCC facility will "contribute to the preservation of our environmental resources for generations to come." AEP Brief at 5. First, it must be noted that AEP's proposed hypothetical IGCC facility is not the only means of achieving environmental benefits.¹² AEP did not consider several other options. Second, for AEP's hypothetical IGCC facility to be capable of achieving the level of environmental

¹² For example, as IEU-Ohio noted in its Initial Brief, the Companies have admitted that they have neither looked at how an expansion of interruptible service offerings might be used in whole or in part as a potential means of meeting the SSO requirements nor studied whether conservation and increased energy efficiency steps may be employed to satisfy some of that unanticipated need. Tr. Vol. IV at 32, 45. Similarly, AEP did not consider other types of generation options such as a nuclear facility, which would not require carbon sequestration capability. Tr. Vol. II at 49. AEP did not consider retrofitting coal gasification technology to any existing combined cycle facilities despite conceding that it is technically feasible. Tr. Vol. II at 18-19; 77-78.

benefits it flaunts in its advocacy, it would have to be capable of CO₂ capture and sequestration. However, while AEP touts the environmental benefits of IGCC technology, in part due to this CO₂ capture and sequestration, AEP does not readily disclose that it does not plan to include CO₂ capture and sequestration in its initial plans and may never retrofit the plant to include CO₂ capture and sequestration capability. Tr. Vol. III at 106. Further, if CO₂ capture and sequestration is implemented at the IGCC plant, it will require additional capital investment and reduce the operating efficiency of the IGCC plant. Tr. Vol. III at 86. Thus, IGCC technology may have the potential to "contribute to the preservation of our environmental resources" but the contribution from AEP's hypothetical IGCC facility, as proposed, offers no upside to the decidedly expensive IGCC plant that it would have its customers finance and guarantee.

C. The Cost Recovery Mechanism is Not Appropriate

AEP focuses on the mechanics of its cost recovery mechanism as a basis to assert it is reasonable. AEP Brief at 16-20. While the mechanics of the formulary approach may result in AEP recovering 100% of the IGCC facility costs, this does not segue to a conclusion that the cost recovery mechanism is reasonable. The evidence presented in this case demonstrates that AEP did not seek to minimize the costs associated with its SSO rates. AEP did not seek to bid out any portion of the proposal and its consideration of other contractors was minimal. Indeed, as noted in the Initial Briefs of others, the structure of AEP's proposal actually provides incentives to increase the overall IGCC costs.

AEP suggests that its cost recovery mechanism does not foreclose future Commission review as to whether IGCC facility costs are reasonable. In fact, AEP states that the Commission's approval of its Application "would not, however, mean that

the Commission would be unable to review whether the Companies' construction of the IGCC facility was performed in a manner which resulted in certain costs being unreasonably incurred." AEP Brief at 25. AEP fails to identify how the Commission would ascertain the reasonableness of IGCC costs. Thus, not only has AEP failed to meet its burden of proving that its Application is reasonable in this proceeding, but it has also failed to set forth any metric by which the Commission could determine the reasonableness when it is able to provide more precise cost information at some point in the future. AEP's cost recovery mechanism is not reasonable.

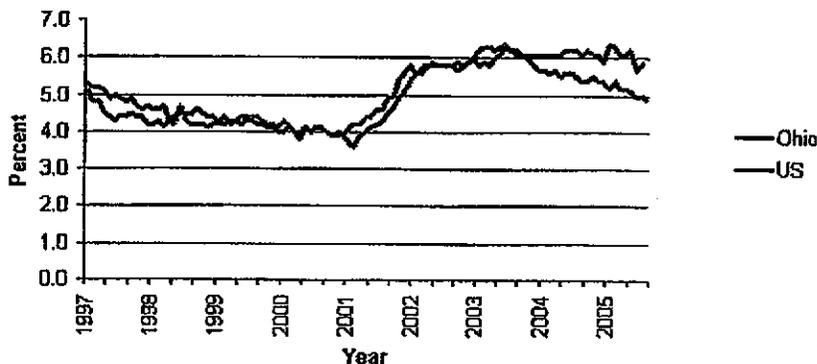
D. Raising the Cost of Doing Business in Ohio Through Hidden Taxes Will Not Reduce Unemployment

As anticipated, the Companies' Initial Brief panders to concerns about unemployment in Southeast Ohio. They use these concerns, concerns that occupy about 10% of the pages in the Companies' Initial Brief, to set up a screen against the legal and other defects in their proposal. They use these concerns in an attempt to pit Ohioans against Ohioans and to incite a debate over which jobs or which areas of the State are more deserving of the Commission's attention.¹³ For nearly three years, IEU-Ohio has been engaged in litigation with Monongahela Power Company ("Mon Power") as a result of the implications of higher electric prices on the economy in Southeast Ohio and IEU-Ohio needs no reminder about Southeast Ohio's vulnerability or the potential for higher energy costs in Ohio to send more jobs across the border to

¹³ The barriers to economic retention and development in Southeast Ohio are varied. For example, an entire town (Cheshire, Ohio located in Gallia County next to Meigs County) was purchased and evacuated as a result of the effects of power plant pollution on the area. <http://www.forgottenoh.com/Cheshire/cheshire.html>

Indiana, Kentucky or West Virginia (also served by AEP)¹⁴ and overseas. For what it may be worth, the unemployment rates in Indiana, Kentucky and West Virginia are all lower than the rate in Ohio¹⁵ and Ohio's unemployment rate is well above the national average.¹⁶

Ohio and U.S. Seasonally Adjusted Unemployment Rates, 1997- August 2005



If the Commission rejects AEP's proposal, AEP is nonetheless free to proceed with a plan to build a new generating plant in Meigs County. So, the outcome of this

¹⁴ The Ohio Department of Job and Family Services publishes information on conditions in Ohio's 12 economic development regions including Region 11 which includes Athens, Hocking, Meigs, Monroe, Morgan, Noble, Perry, and Washington Counties. http://lmi.state.oh.us/EDR/Archive/2002/Report_Southeast.PDF. Local economic development efforts in the region are coordinated through the Buckeye Hills-Hocking Valley Regional Development District ("BH-HVRDD"), which serves as a Local Development District ("LDD") for the Appalachian Regional Commission ("ARC") and an Economic Development District ("EDD") for the Economic Development Administration ("EDA"). See <http://www.buckeyehills.org>. BH-HVRDD's Development Department routinely structures project packages which include funding assistance from federal and state government agencies. Rather than prosecuting applications to transform captive customers into captive investors, the Companies might consider working with BH-HVRDD and other regional and state agencies to tap the large amount of federal funds made available for "clean coal" projects as a result of The Energy Policy Act of 2005.

¹⁵ See the Regional and State Employment and Unemployment: August 2005 publication issued on September 16, 2005 by the Bureau of Labor Statistics of the U.S. Department of Labor and available via the Internet at <http://www.bls.gov/news.release/pdf/laus.pdf>.

¹⁶ See the current labor market information published by the State of Ohio at <http://lmi.state.oh.us/LAUS/LAUS-CurrentLaborForceEstimates.htm>.

case has no necessary relationship between AEP's transparent, self-serving interest in unemployment in Meigs County and AEP's ability to act on its concerns.

Unemployment is and has been an Ohio problem and raising the cost of doing business in Ohio through higher electric prices while transferring the business and financial risks of IGCC investment to Ohio customers is an odd and ironic means of addressing Ohio's unemployment. Based on the most recent report issued by the Ohio Department of Job and Family Services (attached as Appendix A),¹⁷ 333,500 Ohioans are unemployed out of a total labor force of 5,978,100. These data show that 800 are unemployed in Meigs County out of a labor force of 8,900 (9.4% rather than the 12.5% statistic AEP used in its Initial Brief).¹⁸ There are 2,800 people unemployed in Canton, Ohio – the location of The Timken Company – and 1,900 unemployed in Hancock County – the location of Marathon Petroleum Company. The concerns about the Companies' proposal identified in the testimony offered by The Timken Company and Marathon Petroleum Company are not even mentioned in the Companies' Initial Brief.

The Companies resort to concerns for employment in Meigs County as though such concerns are a substitute for a demonstration that their proposal is warranted based on its own merit. This attempted switcheroo proves, implicitly, that the Companies' proposal cannot stand on its own.

If Ohio wants to do something to reduce unemployment in Meigs County or elsewhere, it should do it directly in a way that allows elected officials to make the difficult calls rather than indirectly by effectively imposing a hidden tax on Ohio electric customers presented in the form of an IGCC Recovery Factor. Using the Companies'

¹⁷ To the extent required, IEU-Ohio requests that the Commission take administrative notice of the unemployment data published by the State of Ohio.

¹⁸ AEP Brief at 13.

guesstimate of \$1,174,400,000.00¹⁹ from Mr. Jasper's Supplemental Testimony, each of the 125 permanent jobs they say will be added as a result of an IGCC plant in Meigs County would cost approximately \$9.4 million. Surely there is a more efficient means of addressing unemployment in Southeast Ohio.

V. APPROVAL OF AEP'S PROPOSAL WILL HARM DEVELOPMENT OF A COMPETITIVE MARKET IN OHIO

The AEP proposal will harm competitive markets. Under AEP's proposal, customers have two choices: 1) they can take service from AEP at its SSO rate, which includes a charge for IGCC costs; or 2) they can take generation service from a CRES provider (at a rate that is assumed to be comparable to AEP's SSO rate) AND pay for AEP's IGCC costs. Under this scenario, why would any reasonable customer shop? AEP's proposal would require shopping customers to subsidize the IGCC facility, whether or not they receive any of the output of the facility. This requires CRES providers serving shopping customers to duplicate or provide redundant services and harms the competitive market. This is also in violation of Section 4928.14, Revised Code, and Rule 4901:1-35-03, Appendix A, Ohio Administrative Code, which require that the EDU provide electric supply service to its customers on a comparable and nondiscriminatory basis.

AEP argues that because the Recovery Factor in Phase III would be adjusted based on the difference between the market-based standard service offer and the IGCC Cost Recovery Factor, and because the "capacity of the proposed plant would be dedicated to serving the Companies' POLR load" that its proposal will not harm competition. AEP Brief at 27. AEP's suggestion that by simply adjusting the Recovery

¹⁹ Company Exhibit 5a at WMJ Ex. 3.

Factor (which includes a return on and a return of the investment in the IGCC facility, operating expenses including fuel and consumables, and purchased power costs incurred when the IGCC is not operating) amounts to a smoke and mirrors attempt to shift the focus from the fact that all customers, regardless of whether they receive the output from the hypothetical IGCC facility, pay this surcharge. Company Exhibit 2 at 9-11; Tr. Vol. II at 17. Customers that never leave AEP to shop have a clear benefit over those that do shop.

As recognized by Staff, the only way to avoid providing such an advantage over other competing merchant plant developers or CRES providers is to provide merchant generators and CRES providers an opportunity comparable to the opportunity that AEP would have if its proposal is adopted. Tr. Vol. V at 162-166. While it is unclear to IEU-Ohio how the Commission could accomplish this, what is clear is that such a plan would only serve to ratchet electric rates upward.

Additionally, and as previously discussed, there is no present ability for AEP or anybody else to dedicate the output of the hypothetical IGCC to Ohio customers. Modifications to the Interconnection Agreement are necessary in order to ensure that Ohio customers receive the output from the IGCC unit. Tr. Vol. II at 23.²⁰ However, AEP has no plans to seek or make modifications to the Interconnection Agreement. Absent such modifications, any useful capacity or energy available from AEP's proposed IGCC plant will flow to customers in other states served by AEP and subject to PJM's reliability control. Staff Exhibit 1 at 10; Company Exhibit 2 at 14; Tr. Vol. V at 220.

²⁰ Without modification of the Interconnection Agreement, the cost and any output of a new power plant will be "socialized" or distributed to each AEP operating company (including OP and CSP) in accordance with the Interconnection Agreement that has been in place since 1951.

VI. STAFF'S POSITION HARMS OHIO CUSTOMERS

Staff's view that much time has been wasted critiquing AEP's proposal inasmuch as there is "no point in this debate until AEP comes back with a detailed cost presentation" is not shared by AEP, which believes this "is a relatively simple case" that involves up-front approval of AEP's proposal. Staff Brief at 2; AEP Brief at 1. Despite stating that the issues of the "appropriate level of cost recovery as well as the method of recovery... need not and should not be decided presently," Staff states that AEP should be permitted to recover the Phase I costs associated with the pre-construction costs of the hypothetical IGCC facility so that the Companies "will have the funds to investigate, analyze, evaluate, and develop a realistic plan to address the very real concerns presented in this case." Staff Brief at 3-4, 18.²¹ Staff indicates that the basis for its determination that AEP should be permitted to recover the Phase I costs is that it is a way to develop a plan to address Staff's "very real" (but undefined and totally lacking record evidence support) concerns about the long-term reliability and security of the energy supply for the SSO obligation. *Id.* at 3. Staff concludes its Post Hearing Brief by noting that The Energy Policy Act of 2005 provides significant incentives for deployment of clean coal technologies, which could positively impact the economic analysis associated with AEP's proposal and provide additional support for concluding that the proposal should be more closely examined. *Id.* at 19.

Staff's logic is fatally flawed. As IEU-Ohio pointed out in its Initial Brief, if AEP is permitted to recover costs from customers, the loan guarantees established in The Energy Policy Act of 2005 become unavailable. See P.L. 109-58 at Section 414

²¹ Staff also acknowledges that "[o]nly time and investigation will tell if AEP or some other entity should build a plant..." but that we do not have those answers now. Staff Brief at 19.

(August 8, 2005).²² Additionally, AEP already indicated that it is not interested in governmental assistance or loan guarantees. If Staff's proposal is approved, opportunities to take advantage of federal money are foreclosed. If the Commission is dedicated to both IGCC technology and reasonable prices for Ohio customers, the Staff's proposal must be rejected.

Staff states that there are three options for provisioning SSO: building, buying from the market or buying from generation owners. Staff Brief at 10. Staff then argues that the EDUs should have discretion over which option (or combination of options) it will utilize in fulfilling its SSO obligations rather than the Commission making those decisions or dictating specific directives in advance. Staff Brief at 10. Staff misses the mark here. This case is not about the Commission dictating which option AEP can utilize to fulfill its SSO obligation. It is about ensuring that the option selected by AEP is reasonable and lawful. As Staff has recognized, AEP has not met its burden of proving its Application is reasonable.

Staff also argues that "if the EDU is to supply no-notice POLR power at a stabilized price, rather than simply flowing through whatever price the market presents at the time the purchase is made, the EDU would need to make other arrangements to deal with the financial risk of offering a stabilized price." *Id.* at 11. There are several flaws in this argument. First, the assumption Staff makes (that the EDU is to provide POLR power at stabilized rates) only applies during the RSP period. After the RSP, AEP's SSO must be market-based and is no longer subject to the RSP caps. At that

²² Section 414 states:

The Secretary is authorized to provide loan guarantees for a project to produce energy from a plant using integrated gasification combined cycle technology of at least 400 megawatts in capacity that produces power at competitive rates in deregulated energy generation markets and that does not receive any subsidy (direct or indirect) from ratepayers.

point, EDUs must provide, at a minimum, a variable rate SSO service the price of which, according to the Commission's rules, "may vary with changes in wholesale market prices and may be adjusted at any time as changes in market conditions dictate. A retail customer taking a variable-rate service assumes the risks of changes in wholesale market prices and conditions." Rule 4901:1-35-03, Appendix A, Ohio Administrative Code. Thus, recovery of the costs of the hypothetical IGCC generating facility must be subject to market conditions, not up-front cost-based recovery from captive customers.

It is also important to note that the "no-notice" implies that it would be used to serve customers returning to the EDU, as opposed to those customers that remain with AEP. As has been stated, there is virtually no shopping in AEP's service territory. Tr. Vol. I at 54, 215-216. Thus, it is unclear how cost recovery for a hypothetical IGCC facility that is not planned to go into service until well after the RSP period is over will serve as "other arrangements to deal with the financial risk of offering a stabilized price."

VII. CONCLUSION

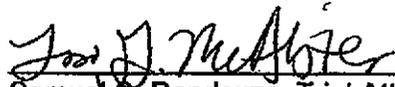
AEP has the burden of proving its Application is reasonable. The record in this case demonstrates that AEP has not met its burden of demonstrating that an IGCC facility is necessary, the costs associated with its proposal are reasonable, or that customers should carry the costs without any guaranteed corresponding benefits. The record requires the Commission to decline AEP's invitation to become a "...commission who wants to share the risk." Tr. Vol. I at 186.

Because of the bigger picture problems with the electric industry that utilities and customers alike face, IEU-Ohio urges the Commission to reject (without prejudice) or suspend consideration of AEP's Application pending examination of the electric price and service quality outcomes that will best meet the needs of suppliers and customers

and the means by which such outcomes can be achieved in the public interest. As recently noted by the Ohio Supreme Court during the oral argument of FirstEnergy Corporation's RSP, it is prudent and necessary that this examination involve the General Assembly. Under the circumstances, the Commission should take on the fundamental questions that must be answered to ensure reliable service and reasonable prices (with the assistance and input of interested parties) and enlist the assistance of the General Assembly by requesting appropriate legislation just as the Ohio House of Representatives suggested.²³

If the Commission determines that the provision of SSO generation capacity is really a distribution function, then IEU-Ohio urges the Commission to immediately commence proceedings for the Companies as well as all other EDUs to establish cost-based prices for SSO service and suspend the effective date of any new RSP charges pending the completion of proceedings to establish such cost based SSO prices.

Respectfully submitted,



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²³ Report to the House of Representatives by the House Select Committee to Study Ohio's Energy Policy at 3 (October 15, 2003).

Appendix A

(C19110:4)

Civilian Labor Force Estimates

For Counties & Cities with Population Over 50,000: August 2005^(a)

Area	Labor Force ^(b)	Employment	Unemployment	Unemployment Rates ^(c)		
				Aug-05	Jul-05	Aug-04
State of Ohio	5,978,100	5,644,600	333,500	5.6	5.7	5.8
Adams	13,000	12,100	1,000	7.3	7.0	8.1
Allen	53,500	50,400	3,000	5.7	5.9	6.3
Ashland	27,600	26,200	1,400	5.2	5.2	6.2
Ashtabula	51,600	48,300	3,300	6.4	6.5	6.3
Athens	27,100	25,400	1,700	6.2	5.9	6.4
Auglaize	25,900	24,800	1,100	4.4	4.4	4.8
Belmont	32,600	30,800	1,800	5.4	5.4	5.9
Brown	22,200	20,900	1,300	6.0	5.6	6.2
Butler	187,700	178,300	9,400	5.0	5.2	5.0
Hamilton	30,300	28,600	1,700	5.6	5.7	5.6
Carroll	14,700	13,800	800	5.7	5.4	6.0
Champaign	21,300	20,100	1,200	5.4	5.4	5.5
Clark	71,100	66,700	4,300	6.1	6.1	6.4
Springfield	29,600	27,600	2,000	6.8	6.7	6.9
Clermont	104,800	99,400	5,400	5.2	5.0	5.2
Clinton	22,400	21,300	1,200	5.2	5.2	5.6
Columbiana	54,200	50,700	3,500	6.5	6.6	6.9
Coshocton	18,200	16,600	1,500	8.5	7.4	8.0
Crawford	23,200	21,800	1,400	6.1	6.3	7.2
Cuyahoga	677,200	637,200	39,900	5.9	6.1	6.2
Cleveland	193,100	178,400	14,800	7.6	7.8	8.0
Cleveland Heights	28,100	26,800	1,300	4.7	4.8	5.1
Euclid	26,500	24,900	1,600	6.0	6.2	6.7
Lakewood	33,100	31,500	1,600	4.9	5.1	5.2
Parma	43,900	41,600	2,300	5.2	5.6	5.2
Darke	29,200	27,700	1,500	5.1	5.4	5.4
Defiance	21,100	19,900	1,200	5.6	6.8	5.8
Delaware	76,500	73,500	3,000	3.9	3.8	4.0
Erie	46,900	44,500	2,400	5.1	5.2	5.1
Fairfield	72,900	69,000	4,000	5.4	4.8	5.2
Fayette	16,600	15,700	900	5.3	5.1	5.3
Franklin	623,800	591,800	32,000	5.1	4.9	5.2
Columbus	420,700	398,900	21,800	5.2	5.0	5.2
Fulton	22,900	21,800	1,100	5.0	6.5	5.4
Gallia	14,400	13,500	900	6.1	6.6	7.4
Geauga	50,100	47,900	2,200	4.4	4.4	4.3
Greene	77,700	73,500	4,200	5.4	5.3	5.3
Guemsey	20,500	19,200	1,300	6.3	7.2	7.1
Hamilton	441,500	417,500	24,000	5.4	5.4	5.5
Cincinnati	162,600	152,500	10,100	6.2	6.1	6.3
Hancock	41,000	39,100	1,900	4.7	4.9	4.7
Hardin	16,300	15,400	900	5.7	5.8	5.9
Harrison	7,500	7,100	400	5.6	5.4	6.3
Henry	16,500	15,700	800	4.9	6.6	5.0
Highland	21,400	20,300	1,100	5.4	5.2	5.5
Hocking	14,000	13,000	1,000	7.2	6.5	6.9
Holmes	20,400	19,600	800	4.0	3.8	4.1
Huron	30,900	28,900	2,000	6.3	6.8	6.3
Jackson	15,600	14,500	1,100	7.1	6.9	7.8
Jefferson	31,700	29,500	2,200	7.0	7.3	7.9
Knox	29,500	28,000	1,500	5.1	5.2	5.3
Lake	128,900	122,600	6,300	4.9	5.0	5.1
Mentor	29,300	28,000	1,300	4.5	4.6	4.6
Lawrence	28,400	26,800	1,600	5.5	5.7	6.1
Licking	82,400	77,900	4,400	5.4	5.2	5.4

Civilian Labor Force Estimates (continued)

For Counties & Cities with Population Over 50,000: August 2005^(a)

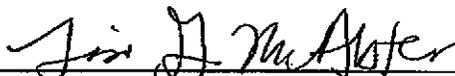
Area	Labor Force ^(b)	Employment	Unemployment	Unemployment Rates ^(c)		
				Aug-05	Jul-05	Aug-04
Logan	25,300	24,000	1,300	5.0	5.0	5.0
Lorain	150,700	142,400	8,300	5.5	6.2	5.6
Elyria	29,400	27,800	1,600	5.5	6.0	5.5
Lorain	31,700	29,500	2,200	7.0	7.9	7.4
Lucas	230,100	215,100	15,000	6.5	7.1	7.0
Toledo	151,000	140,300	10,700	7.1	7.7	7.6
Madison	20,200	19,100	1,100	5.5	5.3	5.5
Mahoning	117,900	110,500	7,500	6.3	6.7	6.6
Youngstown	30,600	28,100	2,500	8.2	8.8	8.7
Marion	32,600	30,700	1,900	6.0	6.2	6.4
Medina	89,400	85,500	3,900	4.4	4.6	4.6
Meigs	8,900	8,100	800	9.4	9.3	10.6
Mercer	24,000	23,100	1,000	4.0	3.9	4.4
Miami	54,400	51,600	2,800	5.2	5.1	5.2
Monroe	6,400	5,900	500	8.2	8.1	9.5
Montgomery	276,700	259,800	16,900	6.1	6.4	6.3
Dayton	72,800	67,400	5,400	7.4	8.0	7.5
Kettering	30,400	28,800	1,600	5.2	5.3	5.4
Morgan	6,400	5,800	600	9.2	8.5	9.3
Morrow	17,900	16,900	1,000	5.4	5.4	5.2
Muskingum	42,300	39,100	3,200	7.6	7.0	6.8
Noble	6,000	5,500	500	7.7	8.3	7.8
Ottawa	21,500	20,300	1,300	5.8	6.0	5.8
Paulding	10,700	10,200	500	5.1	5.7	5.4
Perry	16,900	15,600	1,300	7.5	7.8	8.0
Pickaway	24,200	22,700	1,500	6.3	6.3	7.2
Pike	11,000	10,000	1,000	8.8	8.4	8.9
Portage	88,200	83,700	4,500	5.1	5.3	5.2
Preble	21,800	20,700	1,100	5.1	4.8	5.4
Putnam	19,000	18,200	900	4.5	4.8	6.1
Richland	63,900	60,000	3,900	6.1	6.3	6.6
Mansfield	23,700	22,100	1,500	6.4	6.6	6.7
Ross	35,600	33,200	2,300	6.6	6.3	7.4
Sandusky	34,200	32,400	1,900	5.5	5.9	5.6
Scioto	33,400	30,700	2,700	8.2	7.9	8.2
Seneca	32,000	30,300	1,800	5.5	6.4	6.4
Shelby	27,800	26,500	1,300	4.6	5.1	4.6
Stark	195,300	183,700	11,600	6.0	5.8	6.0
Canton	37,300	34,400	2,800	7.6	7.4	7.3
Summit	289,300	273,300	16,000	5.5	5.4	5.7
Akron	106,700	100,000	6,800	6.3	6.2	6.4
Cuyahoga Falls	28,200	26,800	1,400	5.0	5.0	5.2
Trumbull	106,000	99,500	6,400	6.1	7.7	6.7
Tuscarawas	49,900	47,400	2,500	5.0	4.8	5.3
Union	24,300	23,100	1,200	5.0	4.9	4.8
Van Wert	15,700	15,000	700	4.6	5.5	5.0
Vinton	5,500	5,100	400	7.5	7.2	7.6
Warren	98,400	94,300	4,100	4.1	4.3	4.3
Washington	33,200	31,400	1,800	5.4	5.4	5.5
Wayne	61,800	58,900	2,900	4.7	4.5	5.2
Williams	19,800	18,700	1,100	5.5	7.0	6.4
Wood	68,200	64,500	3,600	5.4	6.1	5.5
Wyandot	14,100	13,400	700	4.9	7.3	5.0

[a] These estimates, prepared in cooperation with the Bureau of Labor Statistics, U.S. Department of Labor, are by place of residence, NOT seasonally adjusted, and revised to 2004 benchmarks. Estimates for current month are preliminary. [b] Civilian labor force equals employment plus unemployment. The employment and unemployment totals shown may not add to the labor force figure shown because of rounding. Employment includes workers involved in labor-management disputes. [c] Rate equals unrounded unemployment divided by unrounded labor force.

Ohio Department of Job and Family Services
Bureau of Labor Market Information
Columbus 43215 09/16/05

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Reply Brief of Industrial Energy Users-Ohio* was served upon the following parties of record this 11th day of October 2005, via electronic transmission, hand-delivery, or ordinary U.S. mail, postage prepaid.


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ATTORNEY EXAMINER

still Ex. 1

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the 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. :

Case No. 05-376-EL-UNC

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**PREPARED TESTIMONY
of
KIM WISSMAN**

Deputy Director, Utilities Department
Public Utilities Commission of Ohio

Staff Exhibit _____

Please state your name, title and business address.

1. A. My name is Kim Wissman and I am the Deputy Director of the Utilities Department, Public Utilities Commission of Ohio. My business address is 180 East Broad Street, Columbus, Ohio 43215.

2. Q. What is your educational background and experience relevant to this proceeding?

A. I received a Bachelor of Science Degree in Economic from Kenyon College. I have been employed by this Commission since 1979. My concentration throughout my career at the agency has been in electricity. I have performed analysis, oversight and policy development regarding rate case preparation, cost-of-service studies, contract and tariff approval, cogeneration matters, management performance and financial audits on company fuel and purchased-power procurement practices and cost recovery. Currently, I also serve as Executive Director of the Ohio Power Siting Board, responsible for siting major utility facilities in the state of Ohio including gas and electric transmission lines and generating stations, and provide policy guidance in independent transmission system operators, regional cooperative efforts, and federal energy matters. I currently have responsibility for oversight of the Facilities, Siting and Environmental Analysis Division and the Policy and Market Analysis Division of the Utilities Department.

3. Q. What is the purpose of staff testimony?

A. The Staff believes that there is a need for investment in baseload capacity and that the choice of baseload capacity should be made with an awareness of the strong

risks posed by increasingly stringent environmental regulation and concerns, including those of carbon sequestration. We also recognize that Ohio electric distribution utilities have unique responsibilities for satisfying requirements as providers of last resort. We view AEP's proposal as an innovative simultaneous approach to both the capacity investment issue and the POLR issue. At the same time, we recognize that other solutions may be possible.

Staff will address a limited number of issues. After review of the Applicant's filing and testimony, as well as intervener testimonies, staff believes the particular issues raised by those parties have been adequately addressed. Staff is not addressing the overall economic issues associated with AEP's proposed IGCC plant or whether the Commission should grant or deny the application. Instead, there are a limited number of areas that staff does not believe are currently represented sufficiently in the existing record. Staff is therefore, through its testimony, providing a more complete and robust record for the Commission to consider in its deliberations.

4. Q. The company is proposing the construction of an IGCC generation facility in this case. Does the staff have a preference regarding generation technology?
- A. No. Staff does not advocate a specific technology, per se. We do, however, strongly support a diversified energy portfolio that is economically sound on a forward-looking basis. We currently have a good mix of generation resources in Ohio, and do support a continuance of that in the future. Of course, there are many important factors that can affect the technology choice for a particular

generation facility, including consideration of technologies that reduce greenhouse gas and toxic air pollution; staff witness Lambeck submitted testimony that addresses energy policy issues in this regard.

5. Q. Do you believe generation from coal is an appropriate investment at this time?

A. Yes. Coal is Ohio's, as well as the nation's, most abundant fuel resource. It is well documented in FERC proceedings that, in order to continue to meet increasing demand for natural gas, imports of LNG will need to increase. And yet, the national energy policy has been to move toward less reliance on foreign supplies for our generation and transportation. In addition, natural gas price increases and volatility, as well as its limited domestic supplies and/or deliverability have caused the nation to take a closer look at our energy resources.

There recently has been significant concern over the increased usage of natural gas for power sector consumption. When coal potentially displaces gas for electricity generation, it frees up gas for essential and more efficient uses, such as home heating, and thus, results in a better utilization of that gas resource. Consequently, there is some concern over the increased usage of natural gas for power sector consumption.

Table 1 below shows that natural gas consumption has increased by more than 25% in the last 20 years. Most of the increases over this period are attributable to both industrial consumption and electric power generation. As can be seen in Table 2 below, the increases in generating capability portend further potential increases in the use of gas for electricity production, especially if older coal plants

are retired in the absence of replacement coal units. The increases in demand, coupled with dwindling of supplies, have exerted considerable upward pressure on natural gas prices, which have more than doubled over the last 5 years. Displacement of gas by coal for electricity generation can help relieve the pressure on prices, with the potential for reducing marginal prices of electricity, and the price of gas for residential heating consumers.

Table 1. Natural Gas Consumption in the United States (Thousand MCF)

Year	Residential	Commercial	Industrial	Electric Generation	Total
1986	4,314	2,318	5,579	2,602	16,221
2004	4,878	2,989	7,407	5,352	20,647

Source: EIA

6. Q. So what is the current generation resource mix?

A. This is an interesting picture. The data I have examined make investment in base-load coal generation look attractive from a portfolio diversity perspective.

TABLE 2 Ohio	1999	2003
Total Installed Capacity	29,137 MW	37,536, MW
Coal fired	24,310 MW	24,149 MW
Fuel-oil	1,015 MW	1,197 MW
Gas	1,374 MW	9,728 MW
Nuclear	2,178 MW	2,178 MW
Hydro	171 MW	171 MW
Other	90 MW	114 MW

REGIONAL	1999	2003
Total Installed Capacity	106,640 MW	163,522 MW
Coal fired	70,327 MW	82,818 MW
Fuel-oil	6,644 MW	6,404 MW
Gas	7,882 MW	50,333 MW
Nuclear	18,565 MW	19,637 MW
Hydro	3,051 MW	3,137 MW
Other	171 MW	1,193 MW

NATIONAL	1999	2003
Total Installed Capacity	832,796* MW	1,021,522 MW
Coal-fired	297,059 MW	336,436, MW
Fuel-oil	54,225 MW	64, 705 MW
Gas-fired	129,698 MW	397,947 MW
Nuclear	102,291 MW	104,933 MW
Hydro	89,800 MW	96,345 MW
Other	4,883 MW	21,157 MW

*The total installed capacity for 1999, including independent, non-utility energy sources. The fuel- type break down is available only for the investor-owned utility, municipal and government-owned entities.

Our existing generation resources in Ohio are approximately comprised of:

64 % coal
 26 % gas
 6 % nuclear
 4 % other

Source: EIA

Some key facts to take away from these statistics are the following. In Ohio, our installed capacity has increased about 30%. Gas-fired generation, both state-wide and region-wide, increased about seven-fold, and tripled nation-wide. Coal generation slightly decreased in Ohio

A key factor for increasing the use of natural gas in general over this time frame, and for electricity generation in particular, was that it was environmentally

friendly as compared with coal. The IGCC technology mitigates coal's disadvantage on the environmental front.

Also, not recognized in these numbers are potential upcoming plant retirements. We have an aging coal-fired generation fleet. We have coal units in Ohio as old as 57 years. The newest plant is 14 years old, while the second newest is 23 years. The average age of our fleet is 44 years.

Looking at the "dated" technology and environmental considerations, this begs the question of the continued economic viability of these aged coal plants after consideration of inclusion of the necessary retrofits to comply with new environmental regulations

The Clean Air Interstate Rule (CAIR) and Clean Air Mercury Rule (CAMR) will help reduce Ohio source emissions considerably. For instance, SO₂ will be reduced 82%, NO_x will be reduced 77% from Ohio emissions sources. This does, however, impose considerable costs on the utility industry. In Ohio, for example, Cinergy estimates it will take about \$1.8 billion to comply and AEP has estimated it will take \$3.7 billion by 2010 for compliance of these new environmental regulations.

7. Q. What does all this lead to?
- A. Staff concludes that there does appear to be a need to invest in new clean coal technology given the aforementioned circumstances. This is not limited to an American Electric Power (OP and CSP) issue, but rather, it is a larger regional

and national energy issue. Such deployment of an efficient, environmentally-conscious clean coal technology by the energy industry provides considerable contribution to the resolution of a recognized problem and furthers needed policy implementation. Therefore, staff supports the deployment of new base load coal generation, and believes it is reasonable to provide for some incentive to do so. The proposed Provider of Last Resort mechanism is one possible way to accomplish this end. It is also important, however, in a competitive environment, not to preclude opportunities for any entrant into the market.

8. Q. Is Staff receptive to the IGCC technology?

A. Staff has supported a varied portfolio mix, including technology options among fuels. Gas-fired combustion turbines are clearly not the answer in light of price volatility and increases, and concern of assurances in adequate supplies. Pulverized coal-fired units will provide some cost stability and reliability, and the super-critical units are environmentally friendly; however, neither of these technologies takes into account a hedge on the carbon-constrained future we are looking the face. As indicated above, and supported by other staff testimony, gasification technology is an acceptable way to meet several strategic initiatives. While commercial deployment has not been prevalent, it is becoming a more likely scenario. The cost delta between IGCC and pulverized coal plants appears to be diminishing. This is, in large part, due to the wrap guarantees that the equipment and engineering providers will now provide. While certainly this risk mitigation measure will come with a price tag, staff would expect these guarantees to lower the overall total cost of the project by providing some

mitigation from the technology risk. Given that an Engineering, Procurement and Construction contracts have yet to be negotiated for this specific facility, it is difficult to evaluate the cost implications associated from this more recent development regarding this technology.

IGCC technology is certainly more attentive to environmental issues. The near zero regulated emissions possible with this technology is extremely important to future vitality of coal as a fuel source. This has great significance to improvement in environmental factors in Ohio. In fact, if there is significant deployment of this technology, the industry could, with reduced penalty, retire older, much less efficient and less environmentally friendly coal plants.

Needless to say, the economic benefits to the coal industry would be pronounced. The same is true for employment opportunities, both for construction purposes, as well as for long-term employment at the facility. Any guarantees that the company could provide regarding an Ohio work force, and Ohio tax benefits would prove more valuable to the state.

There would be regional economic improvements in all these areas. The overall reduction in emissions would provide a significant improvement to the state and region. The direct and indirect benefits relative to employment can not be overlooked, particularly in the Appalachian region of the country. The commercial demonstration that coal can be a clean energy resource will provide a revitalization of the coal industry throughout the country, and throughout the world.

9. Q. Is the staff suggesting that Ohio will not be the sole benefactor?

A. The benefits of coal gasification are far-reaching. Given the statistics reviewed above, Ohio must take a hard look at having a reliable and adequate energy supply, consistent with environmental objectives, while simultaneously assuring sufficient, dependable and reasonably-priced fuel resources. The nation must fulfill its strategic energy policy by displacing foreign dependency with self-supply, as well as accommodating efficient and effective use of its scarce resources. The power sector must not be so reliant on natural gas as a fuel source, and must be more respectful of the other household heating and industrial production needs for that fuel.

Further, companies are positioning themselves to recognize the potential for a carbon-constrained world. Therefore, technology deployment, such as the proposed IGCC facility, is critical for our future. The benefits then do go far beyond the Ohio Power and Columbus Southern Power geographic boundaries and their customers. The benefits are not only local, but also state-wide, regional, national and global in nature. Therefore, to the extent there are other funding opportunities available, such as federal grants or loan guarantees, the company should further explore taking advantage of those.

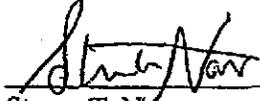
10. Q. Does staff have any other issues or concerns it wishes to raise?

A. Staff does have some apprehension regarding the company requested/expected treatment of this facility as it relates to the AEP operating agreement. Staff believes all modifications to the company agreements that would be required to

enable separate dispatch, separate sales needs, and, for sure, guarantee any flow-back of forthcoming/future benefits directly to the bearers of the risk should be in order prior to the cost recovery mechanism becoming effective. In addition, methods of accounting for both physical dispatch and financial impacts of displacing power that would otherwise be accounted for through the pooling arrangement and/or PJM agreement need to be in place. In this proposed instance, the benefits would need to be assured to go back to the OP and CSP ratepayers. The caution demonstrated by the staff is due to its past experiences with negotiating with 11 other AEP states and all of their respective stakeholder interests in this matter, the various AEP affiliates, as well as the uncertainty associated with the dependence on a Federal Energy Regulatory Commission decision for approval and enforcement of the necessary modifications and amendments to these agreements.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing **TESTIMONY** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following parties of record, this 25th day of July, 2005.



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**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the 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.

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Case No. 05-376-EL-UNC

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PREPARED TESTIMONY
Of
KLAUS LAMBECK
Chief, Facilities, Siting, and Environmental Analysis
Public Utilities Commission of Ohio

Staff Exhibit 2

1. Q: Please state your name, title and business address.

A: My name is Klaus Lambeck and I am Chief of the Division of Facilities, Siting, and Environmental Analysis in Utilities Department, Public Utilities Commission of Ohio. My business address is 180 E. Broad Street, Columbus Ohio 43215.

2. Q: What is your educational background and experience relevant to this proceeding?

A: I received a Bachelor of Science Degree in Education from Ohio State University. I have been employed by this Commission since 1985. Prior to joining the Commission I was employed by the Ohio Department of Energy as Coal research specialist and acting Chief responsible for project management of clean coal technology and research programs in the areas of combustion, beneficiation and environment. As utility researcher, energy specialist and Division Chief for the Public Utilities Commission of Ohio I was and am responsible for energy, environmental, regulatory policy development and implementation as well as ensuring compliance with Ohio's Power Siting law. I participated in the negotiations on Climate Change starting in 1989 and represented the State, the Commission and the National Association of Regulatory Utility Commissioners (NARUC) at all sessions of the United Nations Framework Convention on Climate Change from 1995 through 2001. I am a member of several NARUC Committees addressing clean coal

technologies, energy and the environment, international relations and climate change. Currently I also serve as a Government representative on the Standards Authorization Committee of the North American Electric Reliability Council.

3. Q: What is the purpose of your testimony?

A: As noted in Deputy Director's testimony, the Staff efforts are focused on facilitating the development of a more complete record. The purpose of my testimony is to augment other staff testimony with a view recalling the Ohio Energy Strategy Report (OES).

4. Q: That report covers a wide range of topics and initiatives. Are there specific areas of the Report that you wish to address?

A: Yes, I would like to cover initiative #27 and its connection to section III of the Report.

5. Q: What is Initiative #27?

A: The purpose of Initiative #27 as stated in the report is to "encourage and monitor voluntary cost-effective greenhouse gas and toxic air pollution reduction strategies which do not unduly harm the use of Ohio coal and other indigenous resources."

6. Q: At the inception of this initiative, was there a determination of implementation responsibilities?

- A: Yes, the Initiative was assigned to the Public Utilities Commission of Ohio.
7. Q: In responding to the charge of Initiative #27, have there been areas of concern or opportunities identified?
- A: Initiative #27 is an ongoing activity, both proactive and reactive. The whole issue of how a complex situation like climate change impacts Ohio, the nation, and the globe, and the interaction of climate change discussions on all levels, have given rise to topics that can be addressed by state regulatory bodies.
8. Q: Can you name some of the topics?
- A: Market responses to climate change initiatives; emission reduction strategies; technology deployment; and education.
9. Q: How does Initiative #27 relate to section III of the report?
- A: The choice of natural resource utilization and the assurance of meeting electricity demand with a safe and secure electricity supply for the state of Ohio are interdependent and need to be viewed as a whole and IGCC technology is a hedge for Ohio in a carbon constrained future.
10. Q: Is IGCC the only technology that is capable of greenhouse gas reductions?
- A: No, it is one strategy in a basket of technology options, but it is very attractive for high sulfur bituminous coals. Factors that may contribute to the long-term attractiveness of IGCC technology include the potential to

sequester carbon to mitigate global warming, produce hydrogen for future fleets of fuel-cells or other clean fuels. Because of this potential, in the end the value of IGCC may be its importance as a hedging strategy—a way to keep using the nation's most abundant energy resource while providing options to deal with long term environmental demands.

11. Q: Is the OES the only reason to be concerned about climate issues?

A: No, another effort, for example, is contained in the National Energy Policy Plan. Here the Secretary of energy is to take into consideration the economic, energy, social, environmental, and competitive costs and benefits and benefits for jobs in developing a least cost energy strategy. The strategy shall include among other items consideration of coal, clean coal technologies, coal seam methane, and underground coal gasification. The strategy also shall identify policies that encourage technologies, including clean coal technologies that generate lower levels of greenhouse gases. This federal directive is very much in sync with the direction of the OES.

12. Q: You made reference to a carbon constrained future. Why?

A: I believe that the future for the deployment of the next round of generating technologies will be one that will require limits on the emissions of greenhouse gases. The non-ratification of the Kyoto Protocol by the United States notwithstanding there are enough signs that a carbon constrained future is a plausible concept. Industry by a large measure has

changed its position from "just say no" to a position of "what if" and is modifying business plans accordingly. This is especially true for multinational organizations which are faced with restriction in other countries. Europe has started a trading regime for CO₂, there is a pilot trading effort underway at the Chicago Mercantile Exchange and three states in the U.S. are about to take strong action to reduce their greenhouse gas emissions. Eleven other states are currently debating climate change related laws. All the trends at all levels, state regional, national, and international all point one way, they point to a future where the release of carbon is limited. When these limitations might come into force is difficult to anticipate, whether it is one year or five or later, but the detail of when the limitations come into existence is not so important. Electric generating stations are very long lived assets and carbon release limitations are a certainty in my mind over the long life of the next generation of plants. To fail to recognize this certainty when planning new plant installations today would be extremely shortsighted.

13. Q: Does this conclude your testimony?

A: Yes.

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and Ultimate Operation of an Integrated :
Gasification Combined Cycle Electric :
Generating Facility. :

Case No. 05-376-EL-UNC

**PREPARED TESTIMONY
of
RICHARD C. CAHAAN**

Capital Recovery and Financial Analysis Division

Staff Exhibit 3

1. Q. Would you please state your name, position, and background?

A. My name is Richard C. Cahaan, and I am employed by the Public Utilities Commission of Ohio, 180 E. Broad Street, Columbus, Ohio 43215 as the Chief Economist in the Capital Recovery and Financial Analysis Division of the Utilities Department. I have been employed by the Staff of the Commission since 1983 and have testified in numerous rate cases and other proceedings before this Commission. A large proportion of my testimony before this Commission has been regarding the cost of capital and the rate of return to be granted to regulated utilities, although I have also presented economic analysis regarding other issues, including the rate stabilization plans of First Energy, CG&E, and AEP.

I have received a B.A. degree from Hamilton College and an M.A. degree in Economics from the University of Hawaii, and I have completed all course work and passed the written and oral general and field examinations at the Ph.D. level at Cornell University. I have been a faculty member, either fulltime or part time, at the State University of New York -- Cortland, Eisenhower College, Ithaca College, Cornell University, the Ohio State University, and the Graduate School of Business Administration of Capital University. Prior to joining the Staff, I taught economics at the Ohio State University.

2. Q. What is the purpose of your testimony?

A. As noted in Deputy Director Wissman's testimony, the Staff's efforts are focused on facilitating the development of a more complete record. Among the areas

which, in our opinion, have been insufficiently discussed is that of financing of the IGCC facility. This is the subject of my testimony

3. Q. How does AEP propose to finance the construction of the IGCC?

A. The Application assumes a financing methodology similar to that which was utilized for capital projects under traditional rate-of-return regulation in Ohio. As explained in the testimony of Company Witness Nelson, the capital structures and cost rates utilized to compute the weighted average cost of capital (WACC) are derived from the Companies' February 2005 Allowance for Funds Used During Construction (AFUDC) rates. This is slightly different than the methodology used in rate cases in Ohio, where the parent-consolidated capital structure was usually utilized, but this difference is not important to the present discussion. For all practical purposes, the proposed financing arrangement can be characterized as the traditional method of financing capital projects for the integrated public utility under traditional cost-of-service regulation.

4. Q. Is there a problem in utilizing this traditional approach?

A. It is not clear that this approach is the least-cost method. Even if it is least-cost under the proposed institutional and legal arrangements, there might be other arrangements possible at this juncture which would allow for lower cost financing.

5. Q. Please explain.

- A. This is a definitely non-traditional situation, and the Companies have been quite innovative in structuring and a proposal and cost-recovery mechanism with certain non-traditional risk characteristics. But in terms of financing the project, AEP presents traditional utility financing with traditional capital structures and cost elements. To the extent that the Companies are able to offload risks involving construction and financing, the Staff would think that the proposed return on equity would be somewhat excessive, but this is a minor matter compared to the issue of the capital structure itself.
6. Q. What is wrong with the proposed capital structure?
- A. Nothing, if the best way of financing the project is from within the traditional utility structure. However, other methods are possible. We have observed special project financing in which a significantly lower equity ratio is used. For instance, there have been projects financed with 80% debt. Generally, one would expect that both the debt and equity rates would be higher with the increased leverage, but that the overall rate would be lower.
7. Q. But could this have a negative effect on overall corporate financial strength and credit?
- A. Yes. We recognize that creditors, rating agencies, and capital markets in general tend to look at overall corporate obligations and not at individual projects or even individual subsidiaries -- unless there is good and specific reason not to do this. In other words, there are techniques for ring fencing and risk isolation which can, in

particular circumstances, be legitimately applied and recognized by the capital markets.

8. Q. Do such circumstances exist with respect to financing the IGCC?

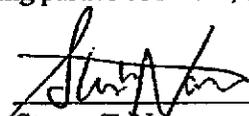
A. We do not know, but this issue certainly needs to be explored. The issue of least-cost extends beyond the questions of technology and physical construction to the areas of financing and institutional arrangements. The problems which are being put to the Commission in this proceeding require innovative approaches and solutions, and the proposed cost recovery mechanism is an example of such thinking. There are no precedents here. If we are required to forge new ground, we should also examine possibilities for innovation in financing arrangements as well.

9. Q. Does this conclude your testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing TESTIMONY submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following parties of record, this 25th day of July, 2005.



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1 anybody from Meigs County will get a job on this
2 construction?

3 A. There are no guarantees that anybody
4 will get a job on this construction plan from
5 Meigs County.

6 Q. From Meigs County?

7 A. From Meigs County.

8 Q. And there are no guarantees that
9 anybody from Meigs County will get any of the
10 permanent jobs arising from this project, is
11 there?

12 A. There are no guarantees.

13 Q. Ms. Bojko also asked you some
14 questions about the 600 versus 1,200 megawatts.
15 I want to clarify a couple of things. This
16 application is for 600 megawatts of IGCC
17 generation; correct?

18 A. That's correct.

19 Q. But this site does have the ability
20 and capability to expand it to 1,200 megawatts,
21 assuming the PJM studies come back indicating
22 that.

23 A. The technical folks you have to talk
24 to about that. I'm not familiar with the

1 expandability of the site.

2 Q. Okay. You also mentioned to
3 Ms. Bojko AEP has an intention to build
4 additional facilities of IGCC technology going
5 forward; is that correct?

6 A. AEP, that is correct.

7 Q. Would all IGCC generation be built
8 to serve provider of last resort? I'll refer to
9 it as POLR load.

10 A. I don't think that determination has
11 been made.

12 Q. And just so I'm straight, AEP
13 doesn't know its POLR load in Ohio, Ohio Power
14 and Columbus Southern Power's service territory,
15 in mid-2010 when the plant is projected to come
16 on line, do they?

17 A. We don't know exactly what that
18 number's going to be, no.

19 Q. And AEP, prior to the ruling on this
20 application, will not know the actual costs of
21 this plant, will it?

22 A. I think we will have a good estimate
23 what the actual cost will be.

24 Q. But AEP will not know the actual

1 costs of this plant as the Commission rules on
2 this application, will it?

3 A. Right. If you're asking if we can
4 predict the future exactly to a penny, the
5 answer is no.

6 Q. And AEP at this time, or at the time
7 this application will be ruled upon, does not
8 have a final design of this plant, does it?

9 A. We do not have a final design as of
10 now, as of this particular date.

11 Q. When does AEP intend to have a final
12 design of this plant?

13 A. You have to ask the technical folks.

14 Q. It won't be prior to the completion
15 of the FEED phase, will it?

16 A. No. I think the FEED phase helps
17 you get there. No.

18 Q. And the FEED phase is estimated to
19 be approximately 12 months, isn't it?

20 A. Yes.

21 Q. And the FEED phase has not yet
22 commenced, has it?

23 A. It has not commenced, yes.

24 Q. And AEP doesn't know what the

1 market price was, they could determine that, but
2 I think we determined earlier that nobody can
3 project what the market price is in 2010.

4 MS. KOLICH: And on that note I am
5 all finished. Thank you very much.

6

7 CROSS-EXAMINATION

8 By Mr. Rinebolt:

9 Q. Mr. Baker, Dave Rinebolt for Ohio
10 Partners.

11 Does anybody know what the actual
12 cost of the per kilowatt-hour from this plant,
13 this proposed IGCC plant, is going to be?

14 A. We do not know what the final number
15 would be.

16 Q. How do you serve your POLR load now?

17 A. The obligations that the two
18 companies have are served out of the AEP pool.

19 Q. How will the POLR obligations of the
20 two companies be served during the RSP period?

21 A. Same way.

22 Q. Same way, okay. And I understand
23 from several of your previous answers that what
24 the company was looking for was a commission

1 that was willing to work with it to advance
2 technology, and that's part of the reason for
3 this application today.

4 A. Yes.

5 Q. Okay. So it's less important -- the
6 fact there is a POLR responsibility in Ohio is
7 less important than the fact you wanted to build
8 one of these plants and you were looking for a
9 commission that wanted to work with you.

10 A. We were looking for a commission,
11 and we do have a POLR obligation. They -- both
12 factors are there, and they needed to be
13 considered before we put this application in.

14 Q. One final question. If you were to
15 continue to serve your POLR load from the AEP
16 pool, '09, '10 and on, would you have adequate
17 capacity in this pool to serve the obligation
18 without this 600 megawatt proposed plant?

19 A. If you consider the AEP system
20 capacity and AEP firm load responsibilities,
21 total across the five companies, we will need to
22 have new capacity in the 2006-2007 time frame.

23 Q. So you will lack the adequate
24 capacity to serve Ohio's POLR load during the

1 RSP period.

2 A. I stand by my statement. We will
3 need to acquire capacity in order to meet our
4 reserve obligations to meet the total load of
5 the AEP system, which is how we'll deal with it
6 during the period of the RSP.

7 Q. One last question, if I may,
8 Mr. Baker. Just to clarify and make it plain
9 for the record, once this plant is constructed,
10 it's essentially the first in for the POLR
11 load. That 600 megawatts is allocated to POLR
12 load, and it's the first power that goes to the
13 POLR load, and if POLR is above 600 megawatts,
14 then you go to market or go to other resources.

15 A. You have to define the period you're
16 talking about. Are you talking about from the
17 standpoint of designing how you serve it on an
18 annual basis? Are you defining how you serve it
19 on an hourly basis? Your question is a little
20 too broad.

21 Q. Well, let's just assume from 2010 to
22 2030, every day your POLR load is greater than
23 600 megawatts. Would this be the first 600
24 megawatts that you would consider to serve that,

1 that would be utilized to serve that load?

2 A. We had a long discussions with a
3 number of parties how you might purchase if, in
4 fact, there were cheaper supplies, but because I
5 believe this will be one of the cheapest
6 alternatives in PJM, it will likely be the first
7 supply to serve POLR.

8 MR. RINEBOLT: Thank you, Mr. Baker.

9 EXAMINER LESSER: Who else has
10 questions and how long?

11 MS. McALISTER: A minimum of half an
12 hour.

13 MR. STINSON: I have a few, but not
14 many.

15 MR. NOURSE: Fifteen minutes.

16 EXAMINER LESSER: We will recess for
17 the evening and have to bring Mr. Baker back.
18 We will start back in at 10 o'clock tomorrow
19 morning.

20 I will take at that time your
21 requests for the other intervenors, not the OCC
22 or staff, the other intervenors for the Friday,
23 Monday, Tuesday time slots.

24 (Thereupon, the hearing adjourned

1 that would have to rely on that.

2 Q. But you do agree with me that PJM will
3 use all of the generation within its control
4 regardless of who owns it to satisfy the load or the
5 demand that is presented by BC should that customer
6 suddenly return to Ohio Power for standard service
7 offer service.

8 A. They shouldn't -- again, that shouldn't
9 happen because this commission and the law have
10 required that the electric distribution utility be
11 ready to do so.

12 Q. I asked you to assume --

13 A. That they were on holiday.

14 Q. -- they were on holiday and they didn't
15 do it. They weren't ready. They didn't have any
16 generation. Like Monongahela Power, the only place
17 that they could go is to the wholesale market. Will
18 you accept that?

19 A. I suppose if there are no alternatives
20 that will happen, but again, this commission is
21 requiring that our EDUs be ready to do so and, in
22 fact, do so.

23 Q. Okay. All right. Let's vary -- but in
24 the event that that obligation is not satisfied by

1 the electric distribution utility, PJM, acting in its
2 role as realtime reliability guardian, will dispatch
3 all available generation underneath PJM's control to
4 satisfy load as that load presents itself on the
5 system.

6 A. They have an obligation to keep the
7 system in balance; absolutely.

8 Q. Right. And in fact, PJM requires AEP and
9 any other entity that would be classified as a
10 load-serving entity within PJM's system to provide
11 reserves, generating reserves, to PJM so that PJM can
12 discharge that responsibility, right?

13 A. Yes, that's clearly part of the
14 requirement for the reserves.

15 Q. Okay.

16 A. But I believe that -- I believe there's a
17 bit of a -- I don't know. The reserves really go
18 above and beyond whatever the expected peak is.

19 Q. Sure. Sure.

20 A. And I don't believe that in this instance
21 that you've put out that that obligation necessarily
22 would be for, for instance, the entire load. I think
23 that there's a little difference between the
24 obligations we're talking about here and PJM reserve

1 requirements.

2 Q. All right. Let's assume -- let's assume
3 IGCC does get built and we got 629 megawatts in Meigs
4 County employing 125 people and it's a wonderful
5 thing. And everybody's getting the tax benefits, and
6 cancer is cured, and the blind can see, let's assume
7 it does get built, okay? PJM would have the same
8 authority over the output of that generator that we
9 talked about earlier, correct? They would have the
10 ability to dictate when that generator needs to
11 increase or decrease production, right?

12 A. Yes. And that, as indicated in the
13 testimony, this PJM agreement and the dispatch and
14 amount is something that we believe this commission
15 should have some more certainty on.

16 Q. Right. Now, and that's one of the
17 reasons why you mentioned the PJM agreement in your
18 testimony; is it not? In other words, before it's
19 possible to dedicate the output of that generator to
20 Ohio customers, something would have to be worked out
21 with PJM to remove the ability of PJM to direct the
22 output of that generator, right?

23 A. Yes, that's what is being suggested in
24 the testimony, that if companies' proposal is

1 MR. RANDAZZO: I mean, her testimony as
2 it stands is staff is here to expand the record so
3 that the Commission can make a more informed
4 decision.

5 MR. NOURSE: No, your Honor. You know,
6 at the beginning of her testimony she clearly
7 indicated -- we're not saying we're open to make
8 Ms. Wissman's everybody's expert testimony here and
9 prove matters that could be addressed through their
10 own testimony. She specifically indicated in
11 response to number 3 that the staff's not addressing
12 the overall economic issues whether the Commission
13 should grant or deny the application.

14 EXAMINER LESSER: Does not sound like
15 this is the right witness.

16 MR. RANDAZZO: Well, who is the right
17 witness? Mr. Cahaan?

18 MR. NOURSE: I don't think you have a
19 right to use staff witnesses to address or require
20 them to defend the companies' application or try to
21 have them address matters that could be addressed
22 through your own witnesses.

23 MR. RANDAZZO: I'm not trying to make her
24 my own witness. I am trying to inquire from her,

1 from a policy perspective, whether it makes sense
2 that a nonbypassable charge that's attached to a
3 shopping customer be predicated on the inclusion of
4 costs that are variable.

5 EXAMINER LESSER: Mr. Randazzo, her
6 testimony did not involve the details of the
7 application as to the cost recovery. She did not
8 testify to that. She did not testify in support or
9 in opposition to it. She is not the appropriate
10 witness to be asked these questions.

11 MR. RANDAZZO: My experience, your Honor,
12 has been, and I don't mean this in an unduly
13 provocative fashion, but my experience is we get
14 staff witnesses who have certain positions that are
15 articulated in the course of a hearing and we get a
16 staff brief that reflects a different perspective,
17 and if counsel for the staff will say categorically
18 on this record that the staff is not going to take a
19 position for or against the application at the
20 briefing stage, I'll let it go, but otherwise I think
21 I'm entitled.

22 MR. NOURSE: Your Honor, I'm not making
23 any representation what will be in our brief or not.
24 We're entitled to make arguments just like every

1 other party regardless of whether it ties in with our
2 witnesses' testimony or not, and that's a separate
3 issue. I've already stated my basis for the
4 objection.

5 MR. SMALL: Your Honor, I'd point out
6 that in answer to question number 3 the witness
7 states that the issues raised by those parties, the
8 intervenors that Mr. Randazzo's client is included
9 that, have been addressed -- adequately addressed.
10 It seems like promotional testimony in saying that
11 Mr. Randazzo's issues have been addressed, and I
12 think he has the right to explore those.

13 EXAMINER LESSER: I have not heard the
14 witness say that that was the position. The witness
15 never went into it in this detail. The company had
16 their witnesses on the stand. The parties had their
17 opportunity for their own witnesses. I think there
18 was sufficient questions asked.

19 MR. RANDAZZO: I'm afraid, your Honor, in
20 order to make a record here you're either going to
21 have to make me quit or I'm going to ask to proceed.

22 EXAMINER LESSER: Okay, quit.

23 Q (By Mr. Randazzo) Now, you say on page 1
24 of your testimony that staff believes there's a need

1 the application. I am merely, as I stated in
2 the opening of my testimony, I am augmenting the
3 testimony of other staff witnesses.

4 Q. Are you testifying that it is now
5 the time for the company or anyone to build an
6 IGCC in Ohio?

7 A. I'm testifying that to the extent
8 one believes in the postulate that there will be
9 a carbon constrained future, that IGCC is one of
10 the technologies at hand that would be able to
11 contribute to the reduction of carbon
12 intensiveness.

13 Q. But you're not necessarily
14 testifying that now is the time to build one in
15 Ohio, are you?

16 A. I am testifying to the fact that it
17 is my belief, as it is other staff's belief,
18 that we need baseload capacity additions in the
19 state of Ohio in this region.

20 Q. Are you testifying that an IGCC
21 plant is economically competitive with a
22 pulverized coal plant?

23 A. I am not testifying to the economics
24 of an IGCC plant versus other technologies.

1 MR. BAIM: I have no further
2 questions, your Honor.

3 Thank you, Mr. Lambeck.

4 THE WITNESS: You're welcome.

5 EXAMINER LESSER: Ms. Kolich.

6 MS. KOLICH: Thank you, your Honor.

7

8 CROSS-EXAMINATION

9 By Ms. Kolich:

10 Q. Good morning, Mr. Lambeck.

11 A. Good morning.

12 Q. I am Kathy Kolich, and I represent?
13 FirstEnergy Solutions in this matter.

14 If you turn to page 2 of your
15 written testimony, question 3 where you recall
16 the Ohio Energy Strategy Report, do you see
17 that?

18 A. Yes, ma'am.

19 Q. Do you recall when that strategy
20 report was released?

21 A. The release date I do believe was
22 April 27, 1994.

23 MR. RESNIK: I'm sorry, I can't
24 hear.

1 this case or under your direction?

2 A. Yes, I did.

3 MR. NOURSE: Your Honor, I would
4 like to mark Mr. Caahan's prefiled testimony as
5 Staff Exhibit 3. It is marked Staff Exhibit 3.

6 Q. Mr. Caahan, do you have the
7 document marked Staff Exhibit No. 3?

8 A. Yes, I do.

9 Q. And this is your testimony that was
10 referred to?

11 A. Yes, it is.

12 Q. Do you have any changes, corrections
13 or additions you would like to make at this
14 time?

15 A. No, I do not.

16 Q. If I were to ask you all the
17 questions contained in your testimony today
18 would your answers be the same to the best of
19 your knowledge and belief?

20 A. Yes, as much as possible. You may
21 find some typos as we go through there. I
22 haven't seen any yet. These are my answers.

23 MR. NOURSE: Thank you.

24 And we move for Staff Exhibit 3

1 subject to cross-examination.

2 EXAMINER LESSER: Thank you.

3 Mr. Boehm.

4 MR. BAIM: Yes, your Honor, just a
5 few questions.

6

7

CROSS-EXAMINATION

8 By Mr. Baim:

9 Q. Good afternoon, Mr. Caahan.

10 A. Good afternoon.

11 Q. First I want to get a general idea
12 of what you are testifying about and start that
13 off with regard to what you are not testifying
14 about.

15 As I understand it, you are not
16 testifying that you or the staff favor the
17 construction of the IGCC application, favor the
18 approval of the IGCC application as filed with
19 the Commission. You are making no
20 recommendation in your testimony in that regard;
21 is that correct?

22 A. That is correct. When the
23 application came in, we divided up work
24 assignments on this, and I was asked to look at

1 the financial aspects of the way in which this
2 would be financed, and that was the limit of my
3 assignment.

4 Q. And I believe in your testimony on
5 page 2, Mr. Caahan, you say that you don't think
6 this is a traditional -- this is a traditional
7 filing. Maybe it isn't on page 2. Maybe it's
8 on -- maybe it is on page 2.

9 You don't believe this is a
10 traditional filing; in other words, this is the
11 sort of filing that was made in today's
12 regulation if one wanted to have a plant put in
13 the rate base; is that correct?

14 A. Could you restate that?

15 Q. This sort of filing the company has
16 made is not the traditional filing made that one
17 would make in the heyday of regulation when a
18 company wanted to have an asset put into rate
19 base; is that correct?

20 A. Yes, I agree.

21 Q. Notwithstanding that, you think that
22 the request for financing that the company is
23 asking for a traditional method; isn't that
24 true?

1 A. The capital structure used and the
2 cost numbers are similar or identical to what
3 would be in a traditional filing, although it is
4 not the same as a traditional filing.

5 Q. And on page 3 of your testimony,
6 regarding the capital structure, you seem to
7 think that the company should have looked at the
8 possibility of financing this project with a
9 capital structure of 80 percent debt; isn't that
10 right?

11 A. What I'm saying is that it should
12 have explored, or if it has explored, it should
13 have told us it explored, capital structures
14 that would employ more leverage if those capital
15 structures would have brought down the cost of
16 financing the project.

17 And the application gives no
18 indication of that and uses a, as I put it,
19 traditional capital structure.

20 Q. And having sat through the
21 cross-examination in this case, is it clear to
22 you now that the company, in fact, rejects the
23 notion of debt financing in this project?

24 A. Yes. The testimony indicated that