IN THE SUPREME COURT OF OHIO

On Appeal From The Public Utilities Commission of Ohio

Industrial Energy Users – Ohio, et al., Appellant, v. The Public Utilities Commission of Ohio, Appellee.	Case No. 2006-1594 Appeal From The Public Utilities Commission of Ohio Case No. 05-376-EL-UNC

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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

APPLICATION

INTRODUCTION

1. Columbus Southern Power Company (CSP) and Ohio Power Company (OP) (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. Pursuant to §§ 4928.35(D) and 4928.14, Ohio Rev. Code, the Companies (as EDUs) are required to provide a firm supply of generation service to their customers: a) who have not switched to a Competitive Retail Electric Service (CRES) provider; b) who have switched to a CRES provider and then default back to their respective Company's generation service because the CRES provider has failed to deliver generation service; or c) who simply choose to return to their respective Company. This statutory requirement recently has been characterized by the Commission as a

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
[redacted]						

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.

<u>PHASE I RECOVERY</u>

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

Rate Schedule	Surcharge (¢/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 Rate Schedule	Surcharge (¢/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:

Columbus Southern Power Company

Rate Schedule	Surcharge (¢/kWh)			
	2007	2008	2009	2010
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

Rate Schedule	Surcharge (¢/kWh) 2007	2008	2009	2010
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
EHG	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 Commissiòn 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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Counsel for Columbus Southern Power Company and Ohio Power Company will be devoted to the market after the rate stabilization period and, therefore, would no longer be part of the Pool. (Tr. II, p. 194). To assure cost recovery for the IGCC facility, and consistent with the Companies' POLR obligation which is imposed on the distribution function, the plant would be an asset of both Companies' distribution function. (Companies' Ex. 2, p. 16).

As will be discussed in greater detail later in this brief, the statutory corporate separation provisions do not require that the Companies place their generation facilities in a separate corporate entity. As electric distribution utilities, the Companies have a POLR obligation. They are not engaged in the competitive electric generation business. They provide generation service only in fulfillment of their statutorily imposed POLR obligation. Moreover, the Companies do not have an affiliate CRES provider. There is no reason, logical or legal, to require the Companies to divest their generation facilities and then have to rely on obtaining electric generation from the market (*Id.* at 17). Even if corporate separation were required by the Commission after the rate stabilization period, a waiver of such a requirement still would be appropriate for at least the IGCC facility. 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. Therefore, the Companies' request for waiver of corporate separation, if such a waiver is required, should be granted. (Companies' Ex. 2, p. 17).

In summary, the three-phase cost recovery proposal is structured in a manner which accommodates a phased approach to constructing the IGCC facility. During Phase I, the Companies will collect approximately $24 million. This would be part of the total cost of construction. These pre-construction costs are legitimate and warranted expenses incurred by the Companies in furtherance of their POLR obligation. The costs stem from the necessary technology.

Q. That's what makes it cutting edge in your mind.

A. Yes.

Q. Mr. Boehm asked you a couple of questions about regulated and deregulated states. Do you recall that?

A. I recall a couple of questions, yes.

Q. Okay. In Ohio -- is Ohio a regulated or deregulated state?

A. Are you asking about generation or distribution or transmission?

Q. That was kind of where I was going. I wasn't quite sure what you were referring to when you were talking about regulated versus deregulated. But to clarify the question, from a generation standpoint is Ohio a regulated or deregulated state?

A. It's deregulated, but we have specific rates that we're charging for generated power.

Q. Today?

A. Yes.

Q. What about after the market

development period, would your answer be the same?

A. After the market development period, obviously, nobody knows what that's going to be. Actually you mean the rate stabilization period.

MR. CONWAY: Can I have a clarification? When you say the market development period, you mean after December 31, 2005?

MS. KOLICH: I was going to clarify that, too, because I got to thinking about your rate stabilization.

Q. After your rate stabilization is completed the end of '08, if I recall.

A. Correct.

MS. KOLICH: Could I have the original question reread?

(Record read.)

Q. After 2008 would your answer be the same, you have rates charging for generation, specific rates?

A. If nothing changes, my answer would be the same, as it is deregulated, the generation component would not be present.

Q. Would not be present in what?

A. The regulated rate component we have now would go away at the end of '08 in the current design.

Q. And then customers would be subject to market-based rates, all things being equal.

A. Yes.

Q. Mr. Petricoff asked you a couple questions regarding retirement of plants, and I want to make sure I was clear on it. AEP has no definite plans to retire any plants in the next 20 years today.

A. I'm not aware of those plans.

Q. Who would be aware of whether or not plants would be retired?

A. Probably the technical folks again, talking about the design of the plant.

Q. Which AEP witness should I ask this question of?

A. Either Mr. Baker -- probably Mr. Baker would be the best place to go.

Q. You also discussed retrofits taking place on your AEP's current generation.

A. Yes.

Q. Who is paying for those retrofits today?

A. Those retrofits are part of the rate stabilization plan.

Q. So who is paying for it? I'm not an expert in your rate stabilization plan.

A. The customers are paying for that retrofit.

Q. Through what recovery mechanism?

A. Through the rate stabilization charges, through the rate stabilization period.

Q. Is that a bypassable charge?

A. I'm not sure.

Q. Okay. You mention in your testimony, page 5, line 1, you talk about natural gas prices and the volatility.

A. Which line was that, please?

Q. Page 5, line 1.

A. Uh-huh.

Q. "Natural gas is plagued by price volatility." Coal prices generally track gas prices, right?

A. I'm not an expert in the market, so

pulverized coal plant generally is cheaper to build today than an IGCC plant; is that correct?

A. I believe that that's the general perceived notion, yes.

Q. Do you know what drives the cost differential?

A. I don't.

Q. Do you know who might know that answer?

A. I would -- probably Monte Jasper or Mike Mudd.

Q. And this plant will not be built without preapproval of cost recovery; that's correct?

A. That is what we have stated publicly.

Q. So if the Commission does approve cost recovery to the level that AEP is satisfied, will the plant -- will AEP go forward with the building of the plant?

A. We would, assuming we, in effect, know from a delivery standpoint with PJM that it's deliverable and that it is everything in the workout of the design phase and the EPCs go

MR. RESNIK: Intended by whom?

Q. Wholesale generation prices -- prices that customers will pay for generation in Ohio will be based on competitive principles, not traditional rate-making principles; would you agree with that statement?

MR. RESNIK: Your Honor, I'm going to object because the question asked about wholesale prices that --

MS. KOLICH: I clarified that, Counsel.

MR. RESNIK: It sounded like it was all one continuous --

MS. KOLICH: Let me rephrase.

EXAMINER SEE: Okay.

Q (By Ms. Kolich) The prices customers will pay for generation after the rate stabilization period in Ohio will be priced based on competitive principles, not traditional rate-making principles; is that your understanding?

A. That's my understanding to the extent there's no changes in that arrangement in Ohio in the future.

Q. So under existing conditions that would be your understanding.

grow in the Ohio market?

A. I think we expect demand to grow, yes.

Q. And this application could be characterized as a cost-plus type of recovery for the cost of the plant, or more consistent with traditional rate-making concepts, couldn't it?

A. I suppose. That is not something I, again, have tried to characterize or made any assessment myself about.

Q. Well, recovery of the cost of this plant will not be recovered in a competitive generation market if this application is approved, correct?

A. That's my understanding.

Q. So in your opinion is this application consistent with competitive market principles?

MR. RESNIK: Your Honor, I'm going to object. The questions have left out a very fundamental part of this whole puzzle, and that is the statutory obligation to be a provider of last resort, which none of the market participants suffer under. So to try and make some comparison as counsel is doing between the companies' plan and how that compares with a market just doesn't make any sense, and I think it's irrelevant and I object.

EXAMINER SEE: And your objection is noted, but I believe Mr. Braine can answer the question.

THE WITNESS: Repeat that question again.

MS. KOLICH: Would you have the question reread, please?

(Question read.)

A. Well, I think the question is what's relevant for building this plant, and if you have a POLR obligation, it certainly makes a difference as far as what you have to do. It's very different than being in the fully competitive market.

Q. Why?

A. Because you're a provider of last resort. You have to provide the power to the customers.

Q. You have to provide the power. It doesn't say you have to build the plant that provides the power, does it?

A. No, it doesn't. It doesn't necessarily say that. It just says you need to have the power, though.

Q. Let's go to page 20 of the White Paper, please. You lay out four scenarios there as to your probabilities of future states of the world; do you

A. Good evening.

Q. The plant that's proposed in this application, does it have to be built by mid-2010?

A. I'm not the one to answer that.

Q. Who would be?

A. I'm not sure. My job is to implement it according to our plan.

Q. And your plan is to have it built by mid-2010?

A. That is correct.

Q. Have you been told what happens if it's not -- if you don't meet that objective?

A. No.

Q. Who told you it had to be built by mid-2010?

A. That's our plan. That's what has been my charge from my superiors.

Q. And who, which of your superiors charged you with that?

A. Specifically Mike Rencheck.

Q. I'm sorry?

A. Michael Rencheck.

Q. Can you spell that name? Last name.

A. R-e-n-c-h-e-c-k.

things in the state. It does provide for additional coal generation. It does provide for a unique technology that is ready to be deployed.

I believe this is the first application of its kind for actual POLR requirements that we've seen from an electric distribution utility, that in and of itself with a proposed rate mechanism is innovative in this environment that we are in today which is quasi regulated, and given the uncertainty that we all know that there has been on restructuring and whatnot, I believe that all in all it was just an innovative package. I used the term pretty loosely, but again, I think it does address several things that we think are important in an energy strategy for the state.

Q. You mentioned the uncertainty and the environment, and I wanted to clarify a couple of things that you said on previous discussions. I think you referred to when you were writing this testimony you were assuming that we would be in a status quo; do you recall that?

A. Yeah, and I think I clarified that that's assuming that at the end of the RSP period we would be in a deregulated environment. I'm not sure what "status quo" really means.

Q. Well, that's exactly what I wanted to find out too. So in your mind "status quo" means we'll be in a deregulated environment after the RSP AEP's -- companies' RSP case is terminated?

A. Yes. I'm sorry I wasn't clear when I answered before.

Q. No, no, no, that's okay.

And just so we're clear on the record, how would you define a deregulated environment?

A. Well, I generally would think that it would mean that, as I indicated with Mr. Kurtz earlier, that the economic regulation of generation would be diminished. There are, again, even in a deregulated environment, there are responsibilities of this commission and particularly the EDUs to assure safe, reliable service to its customers.

So even given that there are not explicit economic regulatory requirements on generation, I believe that there are still going to be some regulatory -- there's going to be some regulatory regime for generation.

Q. And I'm glad you raised that because that was another question I wanted to clarify -- or your response earlier that I wanted to clarify. And when you talk about economic regulation, are you talking about cost recovery of generation facilities?

A. Well, I was actually referring to economic regulation as we knew it before.

Q. Before?

A. Obviously -- before Senate Bill 3.

Q. So traditional rate-making.

A. Traditional, yes. Traditional rate-making regulation is typically what I was referring to. Pre-Senate Bill 3.

Q. Okay. And come the end of the rate stabilization period, just so I understand you, there would be no economic regulation defined as traditional rate-making.

A. There would be no traditional rate-making at that time.

Q. Okay. And the other regulation that you referred to in that caveat dealt more with reliability standards and those types of things, or regulation surrounding generation specifically?

A. I think it could potentially include both, and again, I don't know what this commission -- what the legislature is ultimately going to decide, you're referring to is some assurance of cost recovery before the plant gets built, or is it some incentive -- subsidy or other type of incentive?

A. It is, again, it is not necessarily defined. I just -- in this I am encouraging the Commission to look at alternatives in their deliberations to enable deployment. In this particular instance it is, in fact, the companies' application, their proposal that I'm referencing is one potential way to do it.

Q. And what aspects of the proposal qualify as the incentive?

A. Of this proposal?

Q. Yeah.

A. Oh, I believe that, again, using the term "incentive" loosely, I believe that the request for cost recovery prior to an in-service date is something that would be very attractive for any investor --

Q. I would agree with that.

A. -- and could help deploy the technologies. I believe that in today's environment the request for a return on the investment could be viewed as an incentive.

development facilities. Some estimates by EPRI and by General Electric have placed the cost of this commercialized technology as low as $1250/kw. This can be compared with the actual costs of the earlier facilities of up to $2500/kw. For the purposes of this filing, AEP has conservatively selected $1600/kw as the basis of the projected cost of the proposed facility exclusive of transmission interconnection and landfill costs. This results in an estimated total direct cost of the facility of:

Plant EPC (600MW at $1600/kw)	$ 960,000,000
Transmission Interconnection	$ 9,000,000
Landfill	$ 34,000,000
Total	$1,003,000,000

As the Companies' witness, Mr. Nelson, testifies, when construction-related overheads are added to these direct costs, the estimated total cost is $1,033,000,000.

Q. How will the cost of the proposed AEP IGCC facility be refined?

A. As detailed above, the indicative cost estimate will be refined through the eight-week process that started in early April. Once the proposed scope is settled, the twelve-month FEED process will result in a firm price for the EPC AEP-specific contract scope.

Estimates of Phase I Costs

Q. What costs are included in the actual pre-construction Phase I activity estimate?

A. The costs included in the Phase 1 estimate are generally those expenditures that will be incurred up to the point of entering into the lump sum turnkey EPC contract. Specifically, these include:

1. The GE/Bechtel scoping study;
2. The GE/Bechtel FEED;
3. Outside services and internal costs for the definition of scope and estimation of costs for items outside the anticipated EPC scope. This includes materials handling, switchyard and transmission interconnection, site development and river frontage improvements;
4. AEP internal costs for environmental permitting; and
5. AEP internal costs for overall project management.

Q. What is the total Phase I cost estimate?

A. The Phase I actual costs through February 28, 2005 and projected costs (March 1, 2005 through June 30, 2006) are shown in WMJ Exhibit 1. They are approximately $18 million.

Q. What is the basis for these costs?

A. The GE/Bechtel scoping study is being conducted pursuant to a fixed price agreement. The fixed price for these services is $528,000. GE/Bechtel has stated that the total cost of FEED will be up to $20 million. Recognizing that a substantial portion of the work conducted during FEED is for the development of the GE/Bechtel product and therefore properly assignable to GE/Bechtel, and based upon communications with GE/Bechtel, AEP has estimated the portion of FEED to be billable to AEP to be just less than one half of the total. As shown on WMJ Exhibit 2, the scoping study/FEED is estimated to total $9,895,000. This includes the $145,000 in actual expenditures through February 2005 and

$9,750,000 remaining through Phase I (including the remaining cost of the scoping study).

AEP has estimated $1,442,000 for outside services for items including transmission studies, site assessment, costs assignable to construction in Ohio, air modeling and technical evaluations of technology options in the scope of the facility.

AEP has estimated $5,293,000 in expenses for internal labor related to the development of the project. This includes the work of the project team in developing the scope of the project, engineering services, review of engineering deliverables and the development of the preliminary design of items within AEP's scope responsibility and other internal labor for such things as contracting and accounting support. $925,000 is included for other expenses incurred supporting these activities.

Finally, AEP has estimated $400,000 in expenses for preliminary work on the transmission interconnections and upgrades necessary to timely accommodate this facility.

Q. At what point will AEP have a more definitive accounting of Phase 1 costs?

A. By the time the hearing begins in this proceeding we will have five more months of actual costs to report. Moreover, at that time, the projections will be more accurate since they will be covering a shorter period of time. We can report at the hearing on any update to the Phase I pre-construction costs.

Dated: November 13, 2006

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Supplement to Initial Brief of Appellant FirstEnergy Solutions Corp. was served by regular U.S. mail, with a courtesy copy by e-mail, to the following this 13th day of November, 2006:

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