Exhibit AEP-200

UNITED STATES OF AMERICA

BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

American Electric Power Service Corporation	)	Docket No. ER09-____-000
On behalf of:	)	
Appalachian Power Company	)	
Columbus Southern Power Company	)	
Indiana Michigan Power Company	)	
Kentucky Power Company	)	
Kingsport Power Company	)	
Ohio Power Company	)	
Wheeling Power Company	)	
Collectively, the "AEP East Companies"	)	

PREPARED DIRECT TESTIMONY OF

DENNIS W. BETHEL

ON BEHALF OF THE AEP EAST COMPANIES

June 5, 2009

INDEX OF EXHIBITS

Exhibit AEP-200: Prepared Direct Testimony of Dennis W. Bethel, On Behalf of the AEP East Companies

TABLE OF CONTENTS

Exhibit AEP-201: Existing AEP Transmission Agreement, in Clean Format;

Exhibit AEP-202: Revised AEP Transmission Agreement, in Black-lined Format;

Exhibit AEP-203: AEP East Companies' Transmission Cost of Service and Comparison of Retail Transmission Rates Present and Proposed;

Exhibit AEP-204: Comparison of Variation in Using MLR, 1CP, and 12 CP

Exhibit AEP-205: Summary of Agreement Modification Impacts for 2008 and 2009

Exhibit AEP-206: Summary of Revenue, Demand, Energy and Other Allocation Ratios

Exhibit AEP-207: Settlements under the Present Transmission Agreement

Exhibit AEP-208: Cost Impact Comparison of Present and Revised Allocations – 1 CP

Exhibit AEP-209: Cost Impact Comparison of Present and Revised Allocations - MLR

Exhibit AEP-210: Cost Impact Comparison of Present and Revised Allocations – 12 CP

Work Papers for Exhibits AEP-206 and AEP-207

I. INTRODUCTION

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

A. My name is Dennis W. Bethel. I am employed by American Electric Power Service Corporation ("AEPSC" or "AEP"), as Managing Director – Regulated Tariffs. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. PLEASE REVIEW YOUR TRAINING AND EXPERIENCE IN ELECTRIC UTILITY SERVICE MATTERS RELEVANT TO THIS PROCEEDING?

A. In 1973, I earned a Bachelor of Science Degree in Electrical Engineering from the University of Evansville (Indiana). I began my career with AEP, at Indiana Michigan Power Company (I&M), that same year, as a commercial and industrial customer service engineer. In 1977 I transferred to I&M's rate department. In 1980 I transferred to AEPSC, where I have held positions in Rate Research and Design, System Transactions, Transmission Operations, and Regulated Tariffs. At I&M I worked directly with customers on new and expanded service, was responsible for retail and wholesale contract development and administration, cost of service studies, rate design, fuel clause adjustments and other regulatory analyses. In the AEPSC Rate Research and Design Division, from 1980 to 1988, I performed and supervised cost of service and rate design studies and testified in a number of retail rate cases on those topics for several of the AEP East Companies. In 1988 I transferred to the Systems Transactions Department where I was responsible for power, interconnection and transmission-related agreements and tariffs. In 1991 was promoted to Manager – Interconnection Agreements. During this time I helped to develop and support AEP's

first Open Access Transmission Tariff ("OATT") filed in Docket No. ER93-540-000. In 1997 I moved to the Transmission Operations Department as Manager – Transmission Contracts and Regulatory Support, a position that was functionally separated from the merchant operations function. In June 2000, the merger of AEP and Central and Southwest Corporation was approved, and I was named Director – Transmission and Interconnection Services in the AEPSC Regulatory Services Department. In that position I was responsible for the development and implementation of transmission, interconnection and related agreements, tariffs and policies on behalf of the AEP companies in the three regions where we provide service, SPP, PJM and ERCOT. I assumed my present position in July 2005. As Managing Director- Regulated Tariffs, I direct a staff that is responsible for cost of service studies, rate design, agreements and tariffs for retail and regulated wholesale services through out the eleven-state AEP service area. I frequently represent AEP in Regional Transmission Organization ("RTO") forums, particularly relating to the transmission tariffs, rate design, and related committee matters in the Southwest Power Pool ("SPP") and PJM.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY UTILITY REGULATORY COMMISSIONS?

A. Yes. I have previously submitted testimony or affidavits on transmission and related services before the Federal Energy Regulatory Commission ("Commission") in Dockets ER93-540, ER98-2786, EL02-111, et al, EL01-73, EL05-74, EL05-121, EL07-101, and ER05-751, the AEP East Companies last rate case for transmission service under the PJM OATT ("PJM Tariff" or "Tariff"). In presently open Dockets

No. ER07-1069 and ER08-1329, I sponsor formula rates and protocols for inclusion in, respectively, the SPP OATT, on behalf of Public Service Company of Oklahoma and Southwestern Electric Power Company, and in the PJM OATT, on behalf of the AEP East Companies. I have also provided expert testimony on various electric cost-of-service and rate design issues before the utility regulatory commissions of Michigan, Kentucky, Ohio, Oklahoma, Tennessee, Virginia, and West Virginia. I am registered as a Professional Engineer in the States of Indiana and Ohio.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony discusses and supports the proposed changes to the Transmission Agreement, the rationale behind the cost and revenue allocation methods specified in the revised Transmission Agreement, and the changes in cost and revenue allocations that each of the AEP East Companies will experience after the changes take effect. I will also address the characteristics and cost impacts of two cost allocation methods that were also considered by the AEP East Companies.

Q. ARE YOU SPONSORING ANY EXHIBITS?

Yes. In addition to this Testimony, I am sponsoring the following Exhibits:

Exhibit AEP-201: Existing AEP Transmission Agreement, in Clean Format;

Exhibit AEP-202: Revised AEP Transmission Agreement, in Black-lined Format;

Exhibit AEP-203: AEP East Companies' Transmission Cost of Service and Comparison of Retail Transmission Rates Present and Proposed;

Exhibit AEP-204: Comparison of Variation in Using MLR, 1CP, and 12 CP.

Exhibit AEP-205: Summary of Agreement Modification Impacts for 2008 and 2009;

Exhibit AEP-206: Summary of Revenue, Demand, Energy and Other Allocation Ratios;

Exhibit AEP-207: Settlements under the Present Transmission Agreement;

Exhibit AEP-208: Cost Impact Comparison of Present and Revised Allocations – 1 CP;

Exhibit AEP-209: Cost Impact Comparison of Present and Revised Allocations – MLR; and

Exhibit AEP-210: Cost Impact Comparison of Present and Revised Allocations – 12 CP

III. DISCUSSION OF THE PROPOSED AGREEMENT CHANGES

Q. PLEASE BRIEFLY DESCRIBE THE SCOPE OF THE PROPOSED CHANGES TO THE TRANSMISSION AGREEMENT.

A. Since its inception, the Transmission Agreement has had one purpose, to effect a sharing of the participating AEP East Companies' ("Members") costs of owning and operating Bulk Transmission facilities. The Members originally intended Bulk Transmission facilities to include extra high voltage ("EHV") transmission lines and station facilities operating at 345 kV and higher voltages, but in its final order in Docket No. ER84-348, the Commission directed the Members, in 1989, to include transmission lines operating at 138 kV and higher and all facilities, without regard to voltage, at transmission stations that contain at least some EHV facilities.

Since that time, some very significant changes have occurred in the provision and regulation of transmission and transmission-related services, affecting the electric industry generally, and the AEP East Companies in particular. The two most significant changes are the advent of open access transmission service, pursuant to Orders 888, 889, and their successors, and the AEP East Companies' relinquishment of functional control of their transmission facilities to the PJM RTO. The scope of the changes to the Transmission Agreement proposed by the AEP East Companies is

consistent with the significance of the changes in the provision and regulation of transmission service in the twenty years since the Commission's Order approving it. The proposed changes recognize that, pursuant to the PJM Open Access Transmission Tariff ("OATT", or "PJM OATT"), the AEP East Companies, and other Load Serving Entities ("LSEs") in the AEP Zone of PJM, now share the cost of the AEP East Companies' transmission facilities of all voltages, including those operated at voltages below 138 kV. Further, while the Transmission Agreement included only the five largest AEP East Companies, all seven of them own and operate transmission facilities that are used to provide transmission service under the OATT. The proposed Transmission Agreement changes also recognize that, as a result of open access and RTO participation, the AEP East Companies now are obligated to provide certain transmission-related ("ancillary") services, and to purchase such services and additional RTO supplied services. Accordingly, the proposed Transmission Agreement changes address the allocation of OATT-based transmission related costs and revenues among all seven of the AEP East Companies.

Q. PLEASE SUMMARIZE THE CHANGES TO THE TRANSMISSION AGREEMENT.

A. As can be seen by examination of Exhibits AEP-201 and AEP-202, the significant changes, by Agreement section are as follows:

- The Preamble, is amended to include Kingsport Power Company and Wheeling Power Company as Members, and recognize the Members' participation in the PJM RTO;

- Article 1, Description of Transmission System, is amended to recognize all transmission facilities of the Members, and delete the provisions defining and providing for periodic updates to investments of the Members in Bulk Transmission Facilities;
- Article 4, Agent's Responsibilities, amends the Agent's Responsibilities to recognize the changed nature of Settlements under the revised agreement;
- Article 5, Description of Factors Associated With Settlements, is deleted;
- Article 6, Settlements, is rewritten consistent with RTO participation, and renumbered as Article 5;
- Article 7, Taxes, amends the provisions for recovery of settlement related taxes to recognize the OATT as the recovery mechanism, and is renumbered as Article 6;
- Article 8, Billing and Payments, is replaced with provisions describing the Allocation Principles for transmission related costs and revenues and is renumbered and renamed the section as Article 7, Allocation Principles;
- Article 9, Modification, is amended to include the Agent, that is, the AEP Service Corporation, among those that may call for a reconsideration of the terms and conditions of the Agreement, and is renumbered as Article 8
- Article 10, Effective Date and Term of This Agreement, is modified consistent with the Commission's Order approving the Agreement in Docket No. ER84-348, and is renumbered as Article 9;
- Article 11, Termination of Special Facilities Agreement, is deleted as no longer relevant;
- Article 12, Regulatory Authorities, is renumbered as Article 10;

- Article 13, Assignment, is renumbered as Article 11;
- The signature page is amended to add Kingsport and Wheeling Power Companies' signature lines; and
- Appendix I is added. It is a new attachment, in the form of a table summarizing the costs and revenues to be allocated under the Transmission Agreement, the allocation methods to be used, and describing the expense and revenue accounts where the Members will record the costs and revenues so allocated.

Q. OF THE CHANGES YOU HAVE SUMMARIZED, WHICH IS THE MOST SIGNIFICANT?

A. The most significant change is the replacement of the present bulk transmission investment cost sharing method, specified in Articles 5 and 6, with the comprehensive transmission cost and revenue allocations, contained in new Article 5 and Appendix I.

Q. DO THE PROPOSED CHANGES AFFECT THE WHOLESALE TRANSMISSION RATES CHARGED TO ANY CUSTOMER?

A. No. I think it is important to point out that the proposed changes do not affect the rates for transmission or related services that the AEP East Companies as a group or any other LSE currently is charged by PJM under its OATT. The rates for transmission and related services in the AEP Zone of PJM already reflect the rolled-in costs of all transmission facilities operated by the seven AEP East Companies. What will change, as a result of the new settlement process embodied in the revised Transmission Agreement, is the share of transmission related costs and revenues that will be allocated to each of the AEP East Companies. This means that, while the

AEP Companies' net costs for retail service will be changed, no wholesale transmission customers will be affected.

Q. YOU MENTIONED THAT THE NEW APPENDIX I TO THE TRANSMISSION AGREEMENT SUMMARIZES THE PROPOSED ALLOCATION OF TRANSMISSION RELATED COSTS AND REVENUES AMONG THE AEP EAST COMPANIES. PLEASE EXPLAIN WHETHER ALL OF THOSE COSTS AND REVENUES ARE SHARED TODAY, AND IF SO HOW.

A. The AEP East Companies do share all of the transmission related costs and revenues that come to them by way of the PJM LSE and PJM Transmission Owner settlements today. Except for two minor items, the charges billed to the AEP East Companies by PJM for transmission service and the revenues paid to them for use of the AEP transmission system are allocated among the AEP East Companies by the Member Load Ratio ("MLR"), the same allocation method used in the present Transmission Agreement.

Q. WHAT TYPE OF ALLOCATION METHOD IS THE MLR?

A. The MLR is a peak demand allocation method that has been used by the AEP East Companies since 1951 to share costs related to generation capacity under the AEP Interconnection Agreement "Generation Pool". The MLR is calculated monthly based on the non-coincident peak demands of each of the five largest AEP East Companies during the previous twelve months. The MLR load includes each Members' retail and firm sales for resale load. The load of Kingsport Power Company ("KgPCo") is included in the MLR of Appalachian Power Company

("APCo"), while the load of Wheeling Power Company ("WPCo") is included in the load of Ohio Power Company ("OPCo"). The highest peak demand of each Member during the last twelve months are summed, and then each Member's MLR is calculated as its peak demand in the previous twelve months divided by the sum of the five Members' non-coincident peaks. Unlike a single coincident peak or 1 CP, demand allocation basis such as the PJM Network Service Peak Load ("NSPL") billing unit, the MLR recognizes the seasonal diversity among the AEP East Companies' loads by incorporating each company's peak demand during the past twelve months, whether it occurs in the winter or summer.

Q. WHAT IS THE NET EFFECT OF THE PRESENT METHODS OF ALLOCATING TRANSMISSION RELATED COSTS AND REVENUES AMONG THE AEP EAST COMPANIES?

A. The net effect of the allocations used presently by the AEP East Companies is to cause the charges PJM makes to the AEP East Companies for transmission and related services provided by the AEP East Companies to be offset by the revenues they receive from PJM for those same services. As a result, the Companies' net costs for transmission and related services are made up of (1) each Company's cost to own and operate the transmission facilities that each has constructed, (2) their receipts or payments under the Transmission Agreement, (3) the revenues from non-affiliates they receive, and (4) the charges related to services provided by other transmission owners. I will refer to these net transmission costs as "Residual Costs" in discussing the costs that each AEP East Company presently incurs on behalf of their retail customers.

Q. PLEASE IDENTIFY EACH OF THE COMPONENTS OF TRANSMISSION COST AND REVENUE THAT WILL BE AFFECTED BY THE PROPOSED MODIFICATION OF THE TA?

A. The following table summarizes the transmission related costs and revenues experienced by the AEP Companies:

Item	Table 1: Items of Both Expense and Revenue	Billed By	Revenue To:
1	AEP Transmission Agreement Payments and Receipts	AEP	Surplus Cos.
2	Network Integration Transmission Service (NITS)	PJM	AEP Cos.
3	Scheduling, System Control and Dispatch Service (Sch. 1A)	PJM	AEP Cos.
4	RTO Start-Up Cost Recovery Charges (SCRC)	PJM	AEP Cos.
5	PJM Expansion Cost Recovery Charges (ECRC, Sch. 13)	PJM	AEP Cos. 48%
6	PJM Transmission Enhancement Charges (Sch. 12)	PJM	Various
	Additional Revenue and Credit Expense Items		
7	PJM Point-to-Point Transmission Service Credits	PJM	AEP Cos.
8	Grandfathered Transmission Service (Pre-PJM Contracts)	AEP	AEP Cos.
Underlying Cost of Service for AEP Provided Services			
a	Owning and operating the AEP transmission system	Note: Each of the AEP Companies accounts for their own plant, capital and expense for these services.	
b	Performing AEP System Control and Dispatch Operations		
c	Amortization of Deferred RTO Start-up Expenses		
d	Amortization of Deferred PJM Expansion Cost Funding		

Q. WHAT TRANSMISSION RELATED COSTS ARE THE AEP EAST COMPANIES PERMITTED TO RECOVER THROUGH THEIR RETAIL RATES?

A. There is no consistent basis for determining the cost of transmission service among the retail jurisdictions served by the AEP Companies. In Ohio, Columbus Southern Power Company ("CSP") and OPCo are permitted to charge, through a Transmission Cost Recovery Rider ("TCRR"), the share of the PJM OATT costs billed to the AEP Companies that they incur on behalf of retail customers. Ohio adopted this method as a step toward the introduction of retail supply competition. As in some other states that have unbundled retail tariffs, the OATT rate is used as the transmission charge so

that retail customers experience the same costs for transmission and related services whether they buy their power from the local utility or another competitive supplier.

The Tennessee Public Service Commission has also recently approved a transmission cost adjustment that permits KgPCo to recover its share of the charges billed to the AEP East Companies by PJM, which charges are allocated to KgPCo pursuant to a Power Purchase Agreement (PPA) with APCo.

The other AEP Companies' retail rates presently in effect in Kentucky, Michigan, Virginia and West Virginia reflect the Residual Costs of transmission and related services where the companies' jurisdictional costs of owning and operating the transmission system are adjusted by the net cost or credit resulting from jurisdictional allocation of transmission service charges and revenues from third parties and AEP affiliates. Although AEP's retail rates in Virginia presently reflect Residual Costs (separated into OATT and retail cost components), Virginia regulation now permits the recovery of OATT-based costs, as in Ohio.

The Indiana Utilities Regulatory Commission recently approved an RTO Cost Tracker that will periodically adjust retail rates for changes in a number of PJM charges and credits, including some of the items listed above; however, I&M's Indiana base rates still reflect the company's Residual Cost to own and operate its transmission facilities, net of affiliate and third party revenues.

Q. WITH THE PRESENT MIX OF RETAIL RATE MAKING METHODS, ARE THE AEP EAST COMPANIES ABLE TO RECOVER ALL THEIR TRANSMISSION RELATED COSTS?

A. No. Presently, the AEP East Companies are experiencing a significant transmission cost recovery short-fall. The sum of the transmission and related revenues that the AEP East Companies are able to include in retail rates, together with the revenues they receive from non-affiliates is less than their cost of service for transmission and related services.

Q. WILL THE COST RECOVERY SHORT-FALL PROBLEM BE AMELIORATED BY THE APPROVAL OF THE TRANSMISSION AGREEMENT CHANGES PROPOSED IN THIS PROCEEDING?

A. The proposed changes will create the conditions necessary to ameliorate the problem, but retail rate changes will still be required. The cost recovery issue is primarily a result of the way transmission related costs and revenues are allocated among the AEP Companies. If the cost and revenue allocation changes proposed in this case are approved, the Residual Cost of transmission service determined by states that may continue to set retail rates that way, will come more closely into line with the RTO-based costs allowed in Ohio, Tennessee and Virginia.

Q. CAN YOU QUANTIFY THE MAGNITUDE OF THE COST RECOVERY PROBLEM, AND ILLUSTRATE THE RETAIL RATE IMPACTS THAT WOULD RESULT IF THE PROPOSED SOLUTION IS APPROVED AND THE RETAIL RATES OF EACH AEP COMPANY ARE ADJUSTED TO REFLECT THE REALLOCATED COSTS AND REVENUES?

A. Yes. Exhibit AEP-203 illustrates (i) the Residual Costs that each AEP Company experiences today to provide transmission service on behalf of retail customers (line 8), calculated as the approximate total cost of service experienced by the AEP Companies for transmission and related services that they provide (line 6), plus the net charge or credit they experience from the present allocation of costs and revenues among them (line 7); (ii) the approximate cost each Company is able to include in retail rates (line 11); and (iii) the Residual Costs they would each experience with the transmission cost and revenue allocations proposed in this proceeding (line 13).

Comparing the totals of lines 8 and 11, it can be seen that the cost recovery short-fall problem is approximately $58 million per year. It can also be seen that this problem is not merely the result of Ohio and Tennessee charging retail customers based on the PJM OATT. The problem instead results from the Bulk Transmission settlement method in the present Transmission Agreement, and the allocation of other transmission related costs and revenues using the same method, e.g., MLR. The proposed Transmission Agreement changes will fix the problem by allocating transmission costs among the Companies based on their use of each service, and sharing revenues based on each Company's cost to provide the service. With the present settlements and allocations, the Companies are being charged for services on a load share basis, but they are not receiving revenues in proportion to the costs of the services they provide.

Q. PLEASE EXPLAIN THE SIGNIFICANCE OF THE $/kW-Month VALUES SHOWN IN EXHIBIT AEP-203.

A. Those values are important in demonstrating the reasonableness of the proposed changes. The first set of values on line 10 shows each AEP East Company's Residual Cost of transmission per kilo-Watt (kW) of monthly peak demand, based on present settlements and allocations. The variation in the per kW costs that the Companies need to recover from retail customers, is presently more than 200%. As shown, the costs vary from a low of $1.59/kW-month for I&M to a high of $3.27/kW-month for KgPCo. The values on line 12 represent the average cost per kW of demand that the Companies are permitted to recover from retail customers. Those values show the same wide variation, although the CSP and OPCo values are lower than the actual residual cost to the Ohio Companies. Comparing lines 10 and 12, one sees that even with the Ohio cost recovery limited to the PJM OATT costs, as presently allocated using the MLR method, the transmission costs charged to Ohio retail customers is higher than for APCo and I&M customers. Finally, line 14 shows that the proposed cost and revenue allocations will equalize the per-kW transmission and related costs among the AEP Companies.

Q. WHAT LOGIC SHOULD DRIVE THE CHOICE OF COST AND REVENUE SHARING METHODS IN A POOLING ARRANGEMENT AMONG SISTER COMPANIES SUCH AS THE AEP EAST COMPANIES?

A. Costs should be allocated proportionate to the amount of service that each Member uses, typically measured by relative contributions to total peak demand; however, there are various methods that can be used to measure relative contributions to peak

demand. The choice among reasonable alternative cost allocation methods should consider factors such as administrative efficiency and stability of the relative cost shares the allocation methods will produce.

Revenues for transmission and related services should be allocated proportionate to the costs that each Member incurs in making its facilities and services available to its affiliates, and in this case the RTO, such that when all sources of transmission revenues are taken into account, e.g., wholesale and retail, each Member will receive revenues equal to its cost of service.

Q. WHAT BILLING BASIS DOES PJM USE TO CHARGE LOAD SERVING ENTITIES FOR TRANSMISSION AND RELATED SERVICES?

A. PJM uses the prior year single peak or 1CP demand method to charge LSEs for network transmission service ("NTS"), expansion cost recovery charge ("ECRC") and RTO start up cost recovery charge ("SCRC"), and to allocate revenue credits for point-to-point transmission service among NITS customers. PJM charges Transmission Owner Scheduling, System Control and Dispatch Service based on delivered energy.

Q. WHAT COSTS ARE BEING COLLECTED THROUGH THE ECRC AND SCRC RATES?

A. The ECRC rates are billed by PJM to recover the costs that PJM originally charged to the AEP East Companies, Commonwealth Edison Company and the Dayton Power and Light Company to fund the expansion of the RTO's operations in order to accommodate the addition of new zones in 2004 and 2005. ECRC rates are charged to loads in all zones of PJM, except the Dominion Virginia Power Zone. Dominion

also funded a share of the PJM expansion costs, but elected not to participate in the region-wide recovery of the costs. The SCRC rate is a charge that recovers the AEP East Companies' direct costs for RTO development and start-up. That charge is only billed to the AEP East Companies and other NITS customers in the AEP Zone. The ECRC and SCRC rates collect the underlying PJM expansion and AEP RTO start-up costs and carrying costs over the periods that the costs are being amortized, ten years and fifteen years, respectively.

Q. WHAT METHOD DO THE AEP EAST COMPANIES PROPOSE TO USE TO SHARE COSTS THAT PJM BILLS BASED ON THE PRIOR YEAR 1CP DEMANDS?

A. The AEP East Companies propose to use the twelve month average coincident peak or 12CP method to allocate the costs billed to them as a group by PJM using the 1CP method.

Q. PLEASE EXPLAIN WHY AEP IS PROPOSING THE 12CP METHOD.

A. The 12 CP method will result in more stable cost sharing among the AEP Companies than other alternatives. Rate stability is an important consideration for customers, state regulators and for AEP. Exhibit AEP-204 shows the relative stability of several alternative demand allocation methods, on an actual basis from 2005 through 2008, and as projected for 2009. The exhibit shows (1) the present MLRs, (2) the MLRs with KgPCo and WPCo separated from APCo and OPCo, the seven-Member MLRs, (3) the annual 1CP load ratios, and (4) the 12CP load ratios for each of the AEP East Companies. The exhibit calculates the year to year percentage changes, the maximum annual deviation, and the range of deviations. Over the five years, the 1CP

would cause four companies to have single year cost allocation shifts of 20% to more than 33%. Cost variations under the seven-Member MLR method would be relatively low, topping out at 13%. Cost allocation variances under the 12CP method would be the smallest. Similar differences appear when the high to low annual allocation percentage ranges are compared. APCo's 1CP share would range from a high of 34.18% to a low of 26.84%, a 7.34% spread, while the largest spread for 12CP is only 2.85% for I&M. Again the seven-Member MLR comes in second, with a 3.5% spread for APCo.

Q. WHY DOES THE 1CP METHOD CAUSE INSTABILITY IN THE SHARING OF TRANSMISSION COSTS AMONG THE AEP EAST COMPANIES?

A. The 1CP transmission billing demand is inherently less stable than the 12CP method because it measures each customer's load in only one hour of the year. When applied to individual customers, the 1CP method can result in cost allocations reflecting anywhere from zero to 100% of a customer's annual peak load. When applied to utilities like the AEP East Companies that serve the diversified load of many customers, the 1CP can still produce significant variability in cost allocations when the annual peak occurs in the summer than when it occurs in the winter. That is exactly what happened this year in the AEP Zone of PJM. The 1CP in 2007, which was used for billing purposes in 2008, was a summer peak. The 1CP for 2008, that is the network integration transmission service (NITS) billing demand in the AEP Zone during 2009, was a winter demand peak. Three of the AEP East Companies, APCo, KPCo and KgPCo, typically have their annual peak in the winter, while the others typically peak in the summer. Thus, in a year like 2009, when a change from summer

peak allocations to winter peak allocations occurs, costs will be shifted from the summer peaking companies to the winter peaking companies. Of course the reverse will occur when the peak again occurs in the summer.

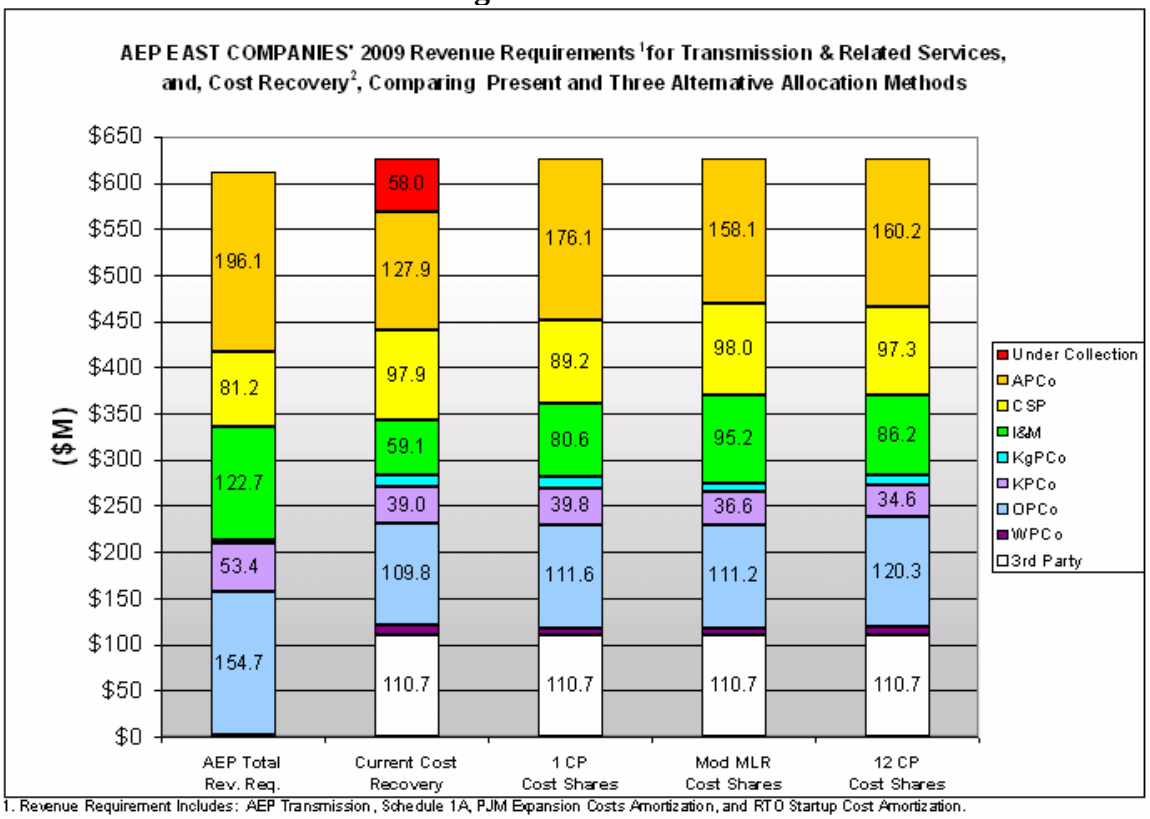
Q. CAN YOU ILLUSTRATE HOW THE NET TRANSMISSION COSTS OF EACH OF THE AEP EAST COMPANIES WOULD CHANGE UNDER THE 12CP AND ALTERNATIVE ALLOCATION METHODS?

A. Yes. Figure 1 shows in bar graph form, from left to right, (1) the total transmission service revenue requirement of the AEP East Companies, (2) the approximate amounts they are currently able to reflect in retail rates, the costs they would experience if the Transmission Agreement changes as proposed are approved, but assuming (3) that the 1CP method is used to share transmission service costs, (4) that the modified 7-Member MLR method is used, and (5) if the 12CP method, as proposed is used.

Q. PLEASE DESCRIBE FIGURE 1.

A. Last year, in Docket No. ER08-1329, the AEP East Companies filed a transmission formula rate, which was accepted, effective as of March 1, 2009, subject to refund after settlement and potential hearing processes. The first bar graph in Figure 1 shows that the transmission and related services revenue requirements of the various AEP East Companies total $612.5 million based on the proposed formula rate. Based on the billing demands effective during 2009, non-affiliates, or third parties, would pay approximately $110.7 million of the AEP Companies' cost of transmission and related services.

Figure 1



1. Revenue Requirement Includes: AEP Transmission, Schedule 1A, PJM Expansion Costs Amortization, and RTO Startup Cost Amortization.
2. Cost Recovery totals exceed AEP Revenue Requirement due to PJM RTEP project socialization charges.

The AEP East Companies would be responsible for the remainder. The second bar graph shows the present situation with regard to retail cost recovery, and the under-recovery problem. The other bar graphs show the relative costs that each of the AEP East Companies would experience if transmission service costs are allocated by the 1CP method, the seven member MLR method or the 12CP method, and illustrate the concept that the under-recovery issue will be resolved if the changes proposed in the Transmission Agreement are approved.

IV. COMPARISON OF ALTERNATIVE ALLOCATION METHODS

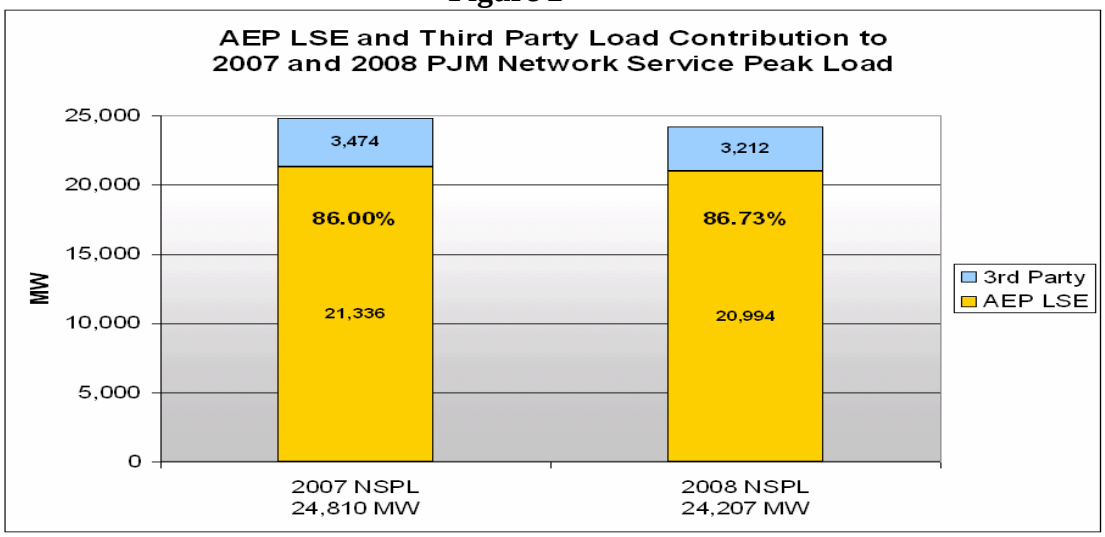
Q. HAVE YOU PREPARED A MORE DETAILED ANALYSIS OF THE IMPACTS THE COST AND REVENUE ALLOCATION CHANGES WILL HAVE ON THE AEP EAST COMPANIES?

A. Yes. Exhibit AEP-205 summarizes three cost impact analyses contained in Exhibits AEP- 208, AEP-209 and AEP-210 that show, respectively, the revenues that each AEP East Company would share as a Transmission Owner and the expenses each would incur as an LSE under the Transmission Agreement as it stands today, and as modified in this proceeding if transmission costs are shared by the AEP East Companies, as LSEs, based on the 1CP Method (Exhibit AEP-208), by the MLR method adjusted to allocate costs to all seven of the AEP East Companies based on their peak retail loads (Exhibit AEP-209), and based on the 12CP method (Exhibit AEP-210). The AEP East Companies are proposing in this proceeding to adopt the 12CP method for transmission and related service cost allocations, other than the PJM Schedule 1A charges that are based on energy deliveries.

As can be seen by summary Exhibit AEP-205, in total, the AEP Companies presently receive more revenue from PJM as Transmission Owners than they pay as LSEs, and based on the rates and billing demands effective during 2008, those net receipts were about $104 million. In 2009, even recognizing the annualized effect of the higher rates that started March 1, the net receipts will be lower, at about $96.5 million. There are two primary reasons the for the reduction in net receipts, (1) the AEP East Companies' share of the AEP transmission costs increased, because the AEP Companies' share of the 2008 winter peak demand is larger than their share of

the 2007 summer peak demand, as shown in the following graph (Figure 2), and (2) the AEP Companies are being charged 15% of the cost of new PJM transmission projects that are being socialized under PJM OATT Schedule 12, Transmission Enhancements.

Figure 2

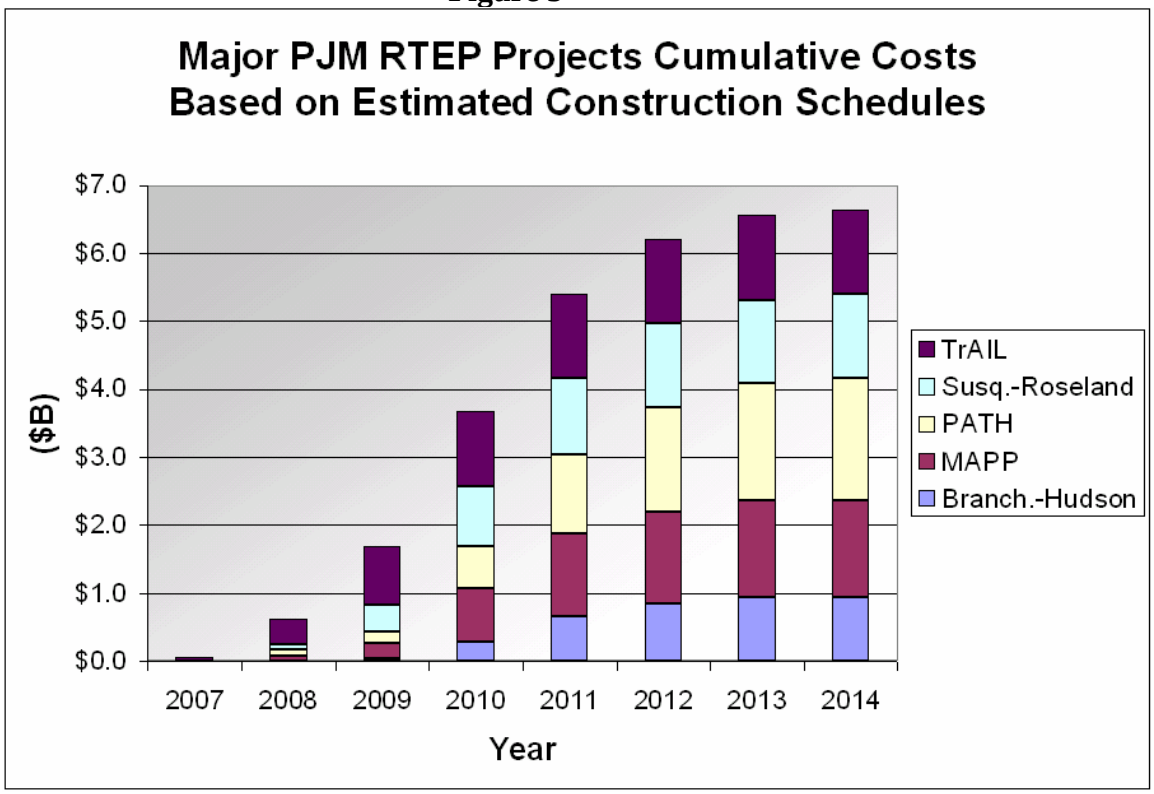


In 2008 PJM began charging the AEP Companies for socialized RTEP projects. So far those charges have not been significant, compared to the cost of the AEP East Companies' facilities; however, those charges are increasing quite rapidly. The 2009 cost impact analyses, summarized in Exhibit AEP-205, include about $14 million for Schedule 12 charges. The $14 million estimate is based on Schedule 12 charges experienced so far in 2009, but several major projects will receive increases in their revenue requirements during 2009, based on inclusion of CWIP in the rate base. AEP does not know with any certainty how much the Schedule 12 charges will actually be during 2009, but estimates of the charges show that they could be as much three times the amount reflected in the analyses.

Q. HAVE YOU PERFORMED AN ANALYSIS TO PROJECT THE SCHEDULE 12 CHARGES EXTENDING BEYOND 2009?

A. Yes. Figure 3 shows the trajectory of PJM capital spending on major PJM Regional Transmission Expansion Plan ("RTEP") projects, for which socialized cost recovery has been approved. Figure 3 illustrates an explosive growth pattern for such projects.

Figure 3

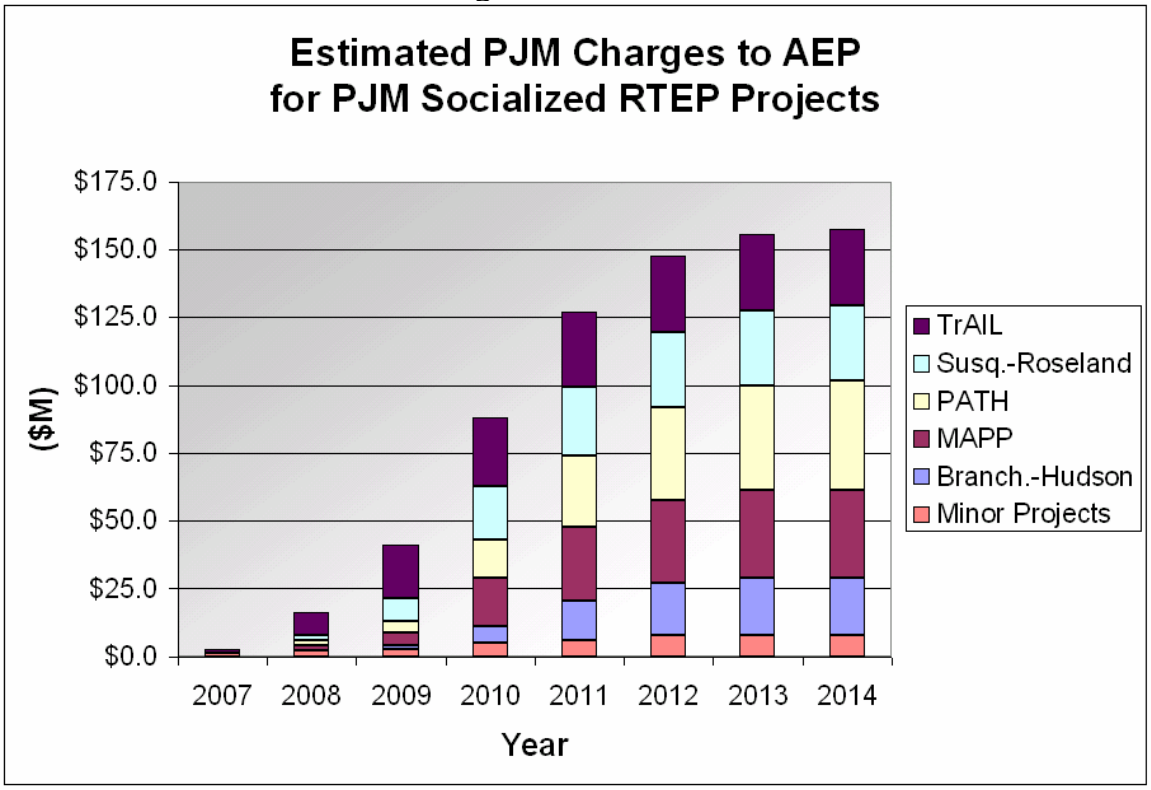


Q. WHAT IS THE BASIS OF THE PROJECTED SPENDING, AND HOW MUCH MIGHT THE AEP COMPANIES ULTIMATELY BE CHARGED FOR THOSE PROJECTS?

A. The spending projections in Figure 3 are based on the estimated cost and in-service dates of the RTEP projects, as published by PJM. The estimated start-to-end spending projection for the various projects has been developed using estimated

spending schedules that assume most of the costs will be incurred in the middle and last years of the construction schedules. Figure 4 shows that the AEP Companies might expect to see Schedule 12 charges increase to about $160 million per year over the next six years, assuming a 15% annual carrying charge rate, and current recovery of construction work in-progress costs for the largest projects. Actual carrying costs may be less than 15% during construction, but the figure is likely to yield a conservative estimate of annual costs once the projects are in service.

Figure 4



Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF Exhibit AEP-205.

A. Exhibit AEP-205 distills a lot of information derived in Exhibits AEP-208, AEP-209 and AEP-210. The exhibit is understood most easily by tracking through the numbers from top to bottom three columns at a time. Note that the line descriptions apply to

all columns, and are arranged in three blocks. The block header "Present Allocation" refers to the present application of the five-company MLR to all costs and revenues, except for the two minor exceptions noted earlier, the ECRC and the SCRC related expenses and revenues which are shared by transmission pole-mile ratios. The Block header "Proposed Allocation" refers to allocations under a modified Transmission Agreement where revenues are allocated based on each AEP East Companies' revenue requirement for each service, and costs are allocated proportionate to relevant measures of load.

The first three columns of numbers under the Header "Summary of Impact, 1CP Cost Allocation, (Exhibit AEP-207)" shows the Present Allocations for each AEP East Company during 2008 and 2009 and the differences in the top block of rows, then the Proposed Allocation for 2008 and 2009 and the differences in the middle block of rows. Bear in mind that on this exhibit the values represent the net of revenues received by and expenses charged to the Members in RTO settlements. The bottom block of rows shows the changes that would result in 2008 and 2009 from replacing the present Transmission Agreement and allocation methods, with the proposed load-based allocation of costs and revenue requirement-based allocations of revenues. The first block of columns show that if the 1CP method were to be used for transmission service cost allocations, the Net Transmission Cost for APCo would increase by $46.5 million from 2008 to 2009 because of the change from a summer peak to a winter peak. The one year change for CSP is $28 million. Two other companies would change by more than $10 million from 2008 to 2009 using the 1CP method.

Moving across to the next block of columns, and tracking down through the rows, one can see that if the seven-Member MLR method is used, instead of the 1CP method, the largest year to year change is reduced by about 2/3 to $18.1 million. The last block of columns shows the results for the 12CP method. The 2008 to 2009 cost changes are slightly larger for the 12CP method than for the 7-Member MLR, but over a longer period of time, as illustrated by Exhibit AEP-204, the 12CP will be the most stable of the methods.

Q. PLEASE DESCRIBE EXHIBITS AEP-206 THROUGH AEP-210?

A. Exhibits AEP-206 and AEP-207 summarize the allocation factors and other data underlying the analyses in Exhibits AEP-208 through AEP-210. Page 1 of Exhibit AEP-206 shows the revenue requirements of each AEP East Company for transmission and PJM Schedule 1A service pursuant both to the rates effective before and after March 1, 2009. Also shown there are the revenue requirements for RTO Start-up and PJM Expansion costs. Page 2 of Exhibit AEP-206 summarizes the AEP East Companies' demand allocation percentages for 2008 and 2009 under the three methods discussed earlier. Page 3 of Exhibit AEP-206 summarizes the energy allocation factors for 2008 and 2009 used to allocate the PJM Schedule 1A service charges. Page 4 of Exhibit AEP-206 summarizes Other Operating revenue and transmission costs that are presently directly assigned. Page 5 of Exhibit AEP-206 summarizes transmission charges to KgPCo and WPCo in 2008 and 2009 under their PPAs with APCo and OPCo, respectively.

Q. WHAT INFORMATION DOES EXHIBIT AEP-207 PROVIDE?

A. Exhibit AEP-207 summarizes the going-level monthly settlements under the Transmission Agreement as it presently operates. In 2008 the total payments by Deficit Members was $68.4 million, with $54.9 million paid by CSP and $13.5 million paid by OPCo. The Surplus Members, APCo, I&M and KPCo, received $28.7 million, $37.7 million and $1.9 million, respectively. Exhibit AEP-205 shows that the Transmission Agreement settlements for 2008 and 2009, based on the investments as of January 2009, would increase slightly to about $71.5 million.

Q. HOW ARE EXHIBITS AEP-208 THROUGH AEP-210 STRUCTURED?

A. Each of the Exhibits AEP-208, AEP-209 and AEP-210 consist of 5 pages. The first page summarizes the information developed on pages 2 through 5. Page 1 looks similar to Exhibit AEP-205, but displays different information. Page 1 of Exhibits AEP-208 through AEP-210 each have three blocks of rows and three blocks of columns. The blocks of rows tabulate Present Allocations, Proposed Allocations and the differences as in Exhibit AEP-205, but the first block of columns shows revenues ("T-Related"), costs ("LSE Related"), and the net cost or receipt for each AEP East Company for 2008. The middle block of columns shows revenues ("T-Related"), costs ("LSE Related"), and the net cost or receipt for each AEP East Company for 2009. Then the third block of columns shows the change from 2008 to 2009 in the revenues and costs, and in the net cost or receipt for each AEP East Company. The "Present Allocation" values are the same in all three exhibits, as are the revenue allocations in the "Proposed Allocation" sections. What is different about Exhibits AEP-208, AEP-209 and AEP-210 is the "Proposed Allocation" for transmission

service costs and the ECRC and SCRC amounts. In Exhibit AEP-208, the transmission costs are allocated using the 1CP method, in Exhibit AEP-209 the seven-Member MLR method is used to allocate transmission costs, and in Exhibit AEP-210, the 12CP method is employed.

Page 2 of each of the three Exhibits shows present, proposed and differences in the allocation of 2008 revenues (T-Related). Page 3 shows present, proposed and differences in the allocation of 2008 costs (LSE-Related). Pages 4 and 5 of each Exhibit AEP-208 through AEP-210 shows the same allocations and differences as pages 2 and 3, but for the 2009 revenues and costs.

V. CONCLUSIONS AND RECOMMENDATIONS

Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.

A. The AEP Companies initiated the AEP Transmission Agreement in 1984 with the goal of levelizing the cost of bulk transmission investments that they each had made and planned to make. Over time, events and new goals have over-taken the Companies and the agreement, resulting in wide differences in per kW costs for transmission service among the AEP East Companies, and a significant cost recovery short-fall. The AEP East Companies have studied the issues, considered the relative affects of several alternative courses of action, and have agreed, pursuant to the terms of the Transmission Agreement, that the agreement should be modified, as has been proposed in this proceeding. My study of the issues and impacts, presented in the for-going testimony, and attached exhibits, lead me to conclude that the proposed changes are consistent with the principles of cost allocation, and the Commission's policies, will improve equity in the sharing of costs among the AEP East Companies

and stability in the costs of their customers. For these and other reasons that Mr. Baker and I have discussed, I recommend that the changes to the Transmission Agreement, reflected in Exhibit AEP-202, be accepted and made effective upon their approval by Order of the Commission.

Q. DO YOU HAVE ANYTHING FURTHER TO ADD?

A. At this time I do not.