COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of: The Plan of Kentucky Utility Company for the Value Delivery Surcredit Mechanism : Case No. 2005-00351

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PUBLIC SERVICE COMMISSION

RESPONSES OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO FIRST SET OF DATA REQUESTS OF LG&E AND KU

1. **Please provide a complete copy of the following documents referenced in Exhibit _(LK-1) to Mr. Kollen's testimony:**
   (a) **November 1998 testimony in Case No. U-23327 before the Louisiana Public Service Commission;**
   (b) **September 2004 testimony in Docket No. U-23327 Subdocket B before the Louisiana Public Service Commission;**
   (c) **February 2005 testimony in Case No. 18638-U before the Georgia Public Service Commission;**
   (d) **June 2005 testimony in Case No. 050045-EI before the Florida Public Service Commission; and**
   (e) **September 2005 testimony in Case No. 20298-U before the Georgia Public Service Commission.**

RESPONSE: 1(a)-(e). Due to the volume of the response, a single copy of each of the requested testimonies has been provided only to the Companies. Copies will be provided to other parties only upon request to KIUC counsel.

2. Please identify any expert testimony appearances not shown on Exhibit _ (L K -1) which refer or relate to any type of surcharge or surcredit rate mechanisms.

RESPONSE: None

3. For any appearances identified in response to the preceding question, please provide a complete and accurate copy of any written testimony associated with such appearance.

RESPONSE: None

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

JOINT APPLICATION OF	)	
SOUTHWESTERN ELECTRIC POWER COMPANY,	)	
CENTRAL AND SOUTH WEST CORPORATION,	)	DOCKET NO. U-23327
AND AMERICAN ELECTRIC POWER COMPANY, INC.	)	
FOR APPROVAL OF PROPOSED	)	
BUSINESS COMBINATION	)	

ADDITIONAL DIRECT TESTIMONY OF LANE KOLLEN

ON BEHALF OF

LOUISIANA PUBLIC SERVICE COMMISSION STAFF

J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA

JULY 1999

385486/1

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

JOINT APPLICATION OF	)	
SOUTHWESTERN ELECTRIC POWER COMPANY,	)	
CENTRAL AND SOUTH WEST CORPORATION,	)	**DOCKET NO. U-23327**
AND AMERICAN ELECTRIC POWER COMPANY, INC.	)	
FOR APPROVAL OF PROPOSED	)	
BUSINESS COMBINATION	)	

ADDITIONAL DIRECT TESTIMONY OF

LANE KOLLEN

Q. Please state your name and business address.

A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 35 Glenlake Parkway, Suite 475, Atlanta, Georgia 30328.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. I filed Direct Testimony on behalf of the Commission Staff addressing the measurement and flow through to ratepayers of nonfuel merger savings through a Savings Sharing Mechanism ("SSM") in lieu of the Company's proposal for a fixed savings sharing. I also proposed certain affiliate conditions necessary to protect the benefits of the merger for ratepayers.

Q. What is the purpose of your Additional Direct Testimony?

A. The purpose of my testimony is to support the SSM and affiliate conditions incorporated in the Stipulation and Settlement between the Louisiana Public Service Commission Staff and the Applicants in this proceeding, American Electric Power Company ("AEP"), Central and Southwest Corporation ("CSW"), and Southwest Electric Power Company ("SWEPCO").

Q. Does the Stipulation and Settlement incorporate an SSM consistent with the Staff's proposal described in your Direct Testimony?

A. Yes. In my Direct Testimony, I outlined the Staff's proposal for an SSM. The Stipulation and Settlement incorporates the SSM and provides a detailed computational framework to measure savings in an objective manner. In addition, the Stipulation and Settlement describes in detail the implementation of the SSM in order to flow through savings to ratepayers, including the timing of the surcredits, and the annual review process necessary to ensure that ratepayers actually receive all rate reduction benefits that are appropriate.

Q. Please describe the computation of savings pursuant to the SSM.

A. The computation of savings pursuant to the SSM is explained in detail in the Stipulation and Settlement. The savings in nonfuel operation and maintenance (O&M) expense resulting from the merger will be quantified in accordance with a formula-based methodology and shared equally between ratepayers and shareholders.

Merger savings will be computed annually as the difference between the future year normalized O&M and the base year normalized O&M, adjusted for inflation and productivity improvements. The ratepayer share of merger savings will be allocated to the Louisiana retail jurisdiction and then flowed through to ratepayers in the form of a surcredit.

The savings will be measured pursuant to a formula, which is detailed in the text of the Stipulation and Settlement and on Attachments A and B. The SSM formula compares the Company's future year normalized O&M expense (FYNE) to the 1998 base year normalized O&M expense (BYNE) escalated for inflation and reduced for productivity improvements. The 1998 base year normalized O&M expense, prior to the inflation and productivity adjustments, is based upon the actual pre-merger level of the Company's nonfuel O&M expense adjusted to reflect certain ratemaking adjustments, to remove operating lease costs, and to remove certain nonrecurring expenses (specifically identifiable and in excess of $1 million during the twelve-month period), including all merger costs. The derivation of the 1998 base year normalized O&M expense is detailed on Attachment A of the Stipulation and Settlement.

For each year subsequent to 1998, the base year normalized O&M will be escalated by an inflation factor reflecting the annual increase in the Consumer Price Index - Urban (CPI-U) less a 1.1% annual productivity adjustment. The future year normalized O&M expense will be based upon the actual post merger level of the Company's nonfuel O&M expenses adjusted to reflect certain ratemaking adjustments, to remove operating lease costs, and to remove certain nonrecurring expenses (specifically identifiable and in excess of $1 million during the twelve-month period), including all merger related costs and amortizations, in a manner similar to that of the base year normalized O&M. The formula for the future year normalized O&M is detailed on Attachment B of the Stipulation and Settlement.

In conjunction with the second SSM filing, but within 120 days of the end of the second SSM period, the Company also will file detailed financial information typically utilized in a revenue requirement filing, including a jurisdictional cost of service study. The detailed financial information will be provided in the format specified in Attachment D of the Stipulation and Settlement. However, the Company and other parties agree that the schedules filed pursuant to this provision will not be determinative for ratemaking purposes. Copies of the detailed financial information will be provided to the Commission's consultants and Special Counsel for review, analysis, and recommendations to the Commission.

Q. Please explain how the SSM operates to flow through savings in the form of rate reductions.

A. The Louisiana retail jurisdictional share of nonfuel O&M savings will be flowed through to customers through an annual surcredit effective initially and for the period beginning on the first day of the fifteenth month after the consummation of the merger. The surcredit in effect after the eighth annual filing will remain in effect unless and until the Commission issues an order in a base rate proceeding.

After the base rate cap expires (five years after the merger is closed), the Company will be allowed to file a claim for a base rate revenue deficiency as an offset to the SSM savings surcredit, which will be subject to an expedited six month review by the Commission. However, the surcredit may only be reduced prospectively after the Commission determines and approves a revenue requirement offset. It is important to note that even though the Company may be able to increase its rates after the expiration of the base rate cap, ratepayers will still receive the full benefits from their 50% share of merger cost savings. The surcredit will reduce the effect of any base rate increase that the Company is authorized to implement during the effective period of the SSM.

After the Company's base rate cap expires, but only through the effective date of the Company's last required SSM filing, the Company may include its retained savings, computed pursuant to the SSM, as a cost of service expense in its revenue requirement filed in conjunction with a comprehensive base rate proceeding. The Company may not include its retained share of savings, computed pursuant to the SSM, as a cost of service item in any revenue requirement filing to offset the SSM. In any base revenue requirement filing through the effective date of the Company's last required SSM filing, the Company will exclude the test year amount of the SSM surcredit from its per books and pro forma revenues.

Q. Does the Stipulation and Settlement require ratepayers to pay for the costs of the merger?

A. No. The Staff has insisted that the risk of the costs of the merger be retained by the Applicants. This position is consistent with sound regulatory policy and with Commission precedent. Consequently, the Stipulation and Settlement precludes the recovery of merger related costs from Louisiana ratepayers. However, the SSM agreement allows the Company to defer its merger-related costs and also allows the Company to use its retained share of the SSM savings in order to amortize and recover those deferred costs. The Company must achieve future year savings in order to recover the costs of the merger. Thus, there is no risk to ratepayers for the merger-related costs, only a sharing of the rewards of merger savings.

Q. Does this Stipulation and Settlement incorporate affiliate transaction conditions consistent with those proposed in your Direct Testimony?

A. Yes. The Company has agreed to each of the affiliate conditions described in my Direct Testimony, although certain changes have been made to clarify the conditions, specify their applications, and to address potential changes in the regulatory environment.

The Staff has insisted that such guidelines for affiliate transactions be established as a condition of the Commission's approval of this merger for several reasons. First, there will be significant changes that will occur in affiliate transaction activity and the level of affiliate costs that will be incurred by SWEPCO and included in its cost of service because of the merger. Second, significant changes in the electric utility industry have necessitated a comprehensive ratemaking framework for affiliate transactions that provide sufficient protection to Louisiana ratepayers from affiliate abuse. Third, the Staff wanted assurance that the Commission could and would be able to perform a review of the Company's affiliate transactions for ratemaking purposes within a reasonable time after the consummation of the merger.

Q. What are the affiliate transaction conditions that are included in the Stipulation and Settlement?

A. The agreed upon conditions are as follows:

1. CSW's domestic electric companies, including SWEPCO, will be core businesses for AEP. The Applicants commit, as part of their obligation to serve, to continue to meet the needs of SWEPCO's domestic regulated customers, including capital requirements, as long as SWEPCO is provided an opportunity to earn a fair return on its regulated investment in assets to provide service to customers, in accordance with regulatory precedent and applicable law.

2. AEP and SWEPCO will provide the Louisiana Commission access to their books and records, and to any records of their subsidiaries and affiliates that reasonably relate to regulatory concerns and that affect SWEPCO's cost of service and/or revenue requirement.

3. AEP will cooperate with audits ordered by the Louisiana Commission of affiliate transactions between SWEPCO and other AEP affiliates, including timely access to books and records and to persons knowledgeable regarding affiliate transactions, and will authorize and utilize its best efforts to obtain cooperation from its external auditor to make available the audit workpapers covering areas that affect the costs and pricing of affiliate transactions.

4. a. Assets with a net book value in excess of $1M per transaction, purchased by or transferred to the regulated electric utility (SWEPCO) from an unregulated affiliate either directly or indirectly (through another affiliate), must be valued for purposes of the Louisiana retail rate base (but not necessarily for book accounting purposes) at the lesser of the cost to the originating entity and the affiliated group (CSW or AEP) or the fair market value, unless otherwise authorized by applicable Commission rules, Orders, or other Commission requirements.

   b. Assets with a net book value in excess of $1M per transaction, sold by or transferred from the regulated electric utility (SWEPCO) to an unregulated affiliate either directly or indirectly (through another affiliate), with the exception of accounts receivable sold by SWEPCO

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to CSW Credit, must be valued for purposes of the Louisiana retail rate base (but not necessarily for book accounting purposes) at the greater of the cost to SWEPCO or the fair market value, unless otherwise authorized by applicable Commission rules, Orders, or other Commission requirements.

5. The Company shall comply with all requirements contained in the Commission's March, 1994 General Order (and any superseding General Order) regarding mergers, acquisitions and transfers of ownership and control regarding regulated utilities and their assets.

6. The Company shall notify the Commission in writing at least 90 days in advance of a proposed purchase, sale or transfer of assets with a net book value in excess of $1 million if such proposed purchase, sale or transfer is expected at least 90 days before the anticipated effective date of the transaction. With the notice, the Company shall provide such information as may be necessary to enable the Commission Staff to review the proposed transaction, including, without limitation, the identity of the asset to be transferred, the proposed transferor and transferee, the value at which the asset will be transferred, the net book value of the asset, and the anticipated effect on Louisiana retail customers. When such a transaction requires approval of a federal agency, under no circumstances shall such notification be less than 60 days in advance or such longer advance period as the applicable federal agency may from time to time prescribe. If not provided with the initial notice, the Company will provide the Commission with a copy of its federal filing at the same time it is submitted to the federal agency.

7. Consistent with applicable Commission and legal precedents and Commission General Orders, the Company shall have the burden of proof in any subsequent ratemaking proceeding to demonstrate that such purchase, sale or transfer of assets satisfies the requirements of applicable Commission and legal precedent and Commission General Orders, and will not harm retail ratepayers.

8. The Commission reserves the right, in accordance with Commission and legal precedents and Commission General Orders, to determine the ratemaking treatment of any gains or losses from the sale or transfer of assets to affiliates.

9. For goods and services, including lease costs, sold by SWEPCO to unregulated affiliates either directly or indirectly (through another affiliate), SWEPCO agrees that it will reflect the higher of cost or fair market value in operating income (or as an offset to operating expenses) for ratemaking

purposes, unless otherwise authorized by applicable Commission rules, Orders, or other Commission requirements (*e.g.*, Commission-approved tariffed rates).

10. With the exception of transactions between SWEPCO and CSW Credit, Inc. and AEPSC, for goods and services, including lease costs, purchased by SWEPCO from unregulated affiliates either directly or indirectly (through another affiliate), SWEPCO agrees that it will reflect the lower of cost or fair market value in operating expenses for ratemaking purposes, unless otherwise authorized by applicable Commission rules, Orders, or other Commission requirements.

11. For ratemaking and regulatory reporting purposes, SWEPCO shall reflect the costs assigned or allocated from affiliate service companies on the same basis as if SWEPCO had incurred the costs directly. This condition shall not apply to book accounting for affiliate transactions.

12. The Company shall submit in writing to the Commission any changes it proposes to the System Agreement, the System Integration Agreement and any other affiliate cost allocation agreements or methodologies that affect the allocation or assignment of costs to SWEPCO. The written submission to the Commission shall include a description of the changes, the reasons for such changes, and an estimate of the impact, on an annual basis, of such changes on SWEPCO's regulated costs. To the extent any such changes are filed with the SEC or FERC, the Company agrees to utilize its best efforts to notify the Commission at least 30 days prior to those filings, and at least 90 days prior to the proposed effective date of those changes or as early as reasonably practicable, to allow the Commission a timely opportunity to respond to such filings. If the documents to be filed with the SEC or the FERC are not finalized 30 days prior to the filing, the information required above may be provided by letter to the Commission with a copy of the SEC or FERC filing to be provided as soon as it is prepared. The filing by the Company of this information with the Commission shall not constitute acceptance of the proposed changes, the allocation or assignment methodologies, or the quantifications for ratemaking purposes.

13. SWEPCO or AEPSC on behalf of SWEPCO may not make any non-emergency procurement in excess of $1 million per transaction from an affiliate other than from AEPSC except through a competitive bidding process or as otherwise authorized by this Commission. Transactions involving the Company and CSW Credit, Inc. (or its successor) for the financing of accounts receivables are exempt from this condition. Records of all such affiliate transactions must be maintained until the Company's next comprehensive retail rate review. In addition, at the time of the next

comprehensive rate review, all such affiliate transactions that were not competitively bid shall be separately identified for the Commission by the Company. This identification shall include all transactions between the Company and AEPSC in which AEPSC acquired the goods or services from another unregulated affiliate.

14. If an unregulated business markets a product or service that was developed by SWEPCO or paid for by SWEPCO directly or through an affiliate, and the product or service is actually used by SWEPCO, all profits on the sale of such product or service (based on Louisiana retail jurisdiction) shall be split evenly between SWEPCO, which was responsible for or shared the cost of developing the product, and the unregulated business responsible for marketing the product or service to third parties, after deducting all incremental costs associated with making such product or service available for sale, including the direct cost of marketing such product or service. However, in the event that such a product or service developed by SWEPCO to be used in its utility business is not actually so used, and subsequently is marketed by the unregulated business to third parties, SWEPCO shall be entitled to recover all of its costs to develop such product or service before any such net profits derived from its marketing shall be so divided. If SWEPCO jointly develops such product or service and shares the development with other entities, then the profits to be so divided shall be SWEPCO's *pro rata* share of such net profits based on SWEPCO's contribution to the development costs.

15. Subject to the provision of Paragraph 6 of the Merger Conditions (fuel hold harmless), SWEPCO shall continue to purchase, treat, and allocate its fuel costs consistently with the Commission General Order dated November 6, 1997, *In re: Development of Standards Governing the Treatment and Allocation of Fuel Costs by Electric Utility Companies,* including any future amendments to this Order.

16. In the event of the implementation of electric generation open access for Commission-jurisdictional electric utilities, any rules, regulations or orders of general applicability adopted by the Commission regarding generation assets in an open access environment will apply to the company and, to the extent inconsistent with provisions of this Order, will govern. No later than six months prior to the mandated open access date, the company shall file with the Commission any proposed modifications to this Order to address any such inconsistencies.

17. If retail access for SWEPCO-La. is mandated by the Commission, or through action by the Federal Energy Regulatory Commission or federal legislation, then SWEPCO-La. shall have the right to petition the Commission for

> modifications to the terms of this settlement, including the affiliate transaction conditions, that are made necessary by the mandating of retail access and its likely impact on the retail rates at SWEPCO-La. Any such petition must establish the necessity of the proposed modifications and provide appropriate protections to ensure that the benefits of this merger are preserved for SWEPCO-La. regulated customers, including merger savings and the hold harmless provisions set forth herein. The Commission will act upon the petition in accordance with its normal rules and procedures. This paragraph is not intended to limit SWEPCO's right to petition the Commission in the event that electric utility unbundling or retain access is ordered by a state Commission regulating SWEPCO's retail rates, provided that SWEPCO must comply with the requirements set forth above in any such petition.

Q. Do the affiliate transaction conditions accomplish the objectives stated in your Direct Testimony?

A. Yes. The affiliate transaction conditions accomplish numerous important objectives. First, conditions ensure that the LPSC will be able to effectively perform its constitutional mandate to regulate SWEPCO's rates. This is accomplished generally through the comprehensive ratemaking framework that is established by the seventeen affiliate transaction conditions. More specifically, effective LPSC regulation is accomplished through the second affiliate transaction condition, which states that AEP and SWEPCO will provide the Commission access to their books and records, and to the books and records of their subsidiaries and affiliates that reasonably relate to regulatory concerns and that affect SWEPCO's cost of service and/or revenue requirement. The third condition states that AEP will cooperate with any affiliate transaction audits ordered by the LPSC. The eleventh condition timely manner before the SEC or the FERC. Such changes often affect the costs that may be recognized for Louisiana retail ratemaking purposes or otherwise affect jurisdictional ratemaking issues.

Fourth, these affiliate transaction conditions provide a precedent for future mergers subject to the Commission's jurisdiction. This comprehensive set of affiliate transaction conditions can be applied in order to protect ratepayers and to ensure that the Commission maintains its regulatory authority over all costs incurred by the utilities subject its jurisdiction, whether the costs are incurred directly by the utility or indirectly through affiliate transactions.

Q. Were there any significant changes to the affiliate transaction conditions that you recommended in your Direct Testimony?

A. No. There were no significant changes to the conditions outlined in my Direct Testimony, although certain changes have been made to clarify the conditions, specify their applications, and to address potential changes in the regulatory environment in Louisiana and surrounding states. For example, the sixth condition in the Stipulation and Settlement, which corresponds to the original fifth condition, was expanded to detail the information that the Company will be required to file with the Commission in conjunction with asset transfers.

The tenth condition in the Stipulation and Settlement, which corresponds to the original ninth condition, now excludes certain transactions between SWEPCO and CSW Credit, Inc. and AEPSC. These exclusions were appropriate given the intent of the condition to address potential abuses thorough transactions with unregulated affiliates.

The twelfth condition in the Stipulation and Settlement, which corresponds to the original eleventh condition, provides for advance notice to the Louisiana Commission for certain filings the Applicants may make before the FERC or the SEC. Although the notice period has been reduced from that originally recommended, it still provides for sufficient advance notice to the Commission before any such filings are made (30 days) and before they become effective (90 days).

The thirteenth condition in the Stipulation and Settlement, which corresponds to the original twelfth condition, was modified to exclude transactions between SWEPCO and CSW Credit, Inc. (for the financing of receivables) and to exclude emergency purchases. Staff and Applicants also agreed that SWEPCO will maintain records of all affiliate transactions covered by this guideline, separately identifying all transactions that were not competitively bid. This identification will enable the Staff and the Commission to determine whether the costs of such transactions were reasonable and whether they should be recovered for ratemaking purposes in the future.

Q. Were additional affiliate conditions included in the Stipulation and Settlement compared to the original conditions recommended in your Direct Testimony?

A. Yes. Four conditions were added to the original thirteen I recommended in my Direct Testimony. First, the fifth condition in the Stipulation and Settlement specifies that the Company will comply with the LPSC General Order regarding mergers, acquisitions and transfers of ownership and control regarding regulated utilities and their assets.

Second, the fifteenth condition provides that SWEPCO will comply with the Commission's General Order regarding the recovery of fuel costs through the fuel adjustment clause.

Third, the sixteenth condition ensures that the Company will abide by the Commission's rules, orders, and regulations generally applicable to the Commission-jurisdictional electric utilities in the event of the implementation of electric generation open access. The sixteenth condition also requires SWEPCO to petition the Commission for any necessary modifications to these affiliate conditions if there are inconsistencies between the conditions and such Commission rules, orders, and regulations.

Fourth, the seventeenth condition allows SWEPCO to petition the Commission for modifications to the terms of the Stipulation and Settlement, including the affiliate transaction guidelines, in the event that retail access is mandated in Louisiana or at the federal level.

Q. Please summarize your recommendation to the Commission.

A. I recommend that the Commission adopt the proposed Stipulation and Settlement. In addition to the reasons stated by Rick Baudino in his Additional Direct Testimony, the Stipulation and Settlement provides a mechanism to ensure that ratepayers receive the benefit, through timely rate reductions, of actual savings associated with the merger and are shielded from payment of merger-related costs. The Commission also will have in place a method for reviewing SWEPCO's post-merger rates to ensure that they remain just and reasonable and that savings are being flowed through to ratepayers. Further, the Stipulation and Settlement provides a comprehensive framework to protect ratepayers against potential affiliate abuses, which could result in higher costs and rates.

Q. Does this conclude your Additional Direct Testimony?

A. Yes.

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

JOINT APPLICATION OF SOUTHWESTERN ELECTRIC POWER COMPANY, CENTRAL AND SOUTH WEST CORPORATION, AND AMERICAN ELECTRIC POWER COMPANY, INC. FOR APPROVAL OF PROPOSED BUSINESS COMBINATION	))) DOCKET NO. U-23327)))

DIRECT TESTIMONY

AND EXHIBIT

OF

LANE KOLLEN

ON BEHALF OF

LOUISIANA PUBLIC SERVICE COMMISSION STAFF

J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA

NOVEMBER 1998

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

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CENTRAL AND SOUTH WEST CORPORATION,	)	**DOCKET NO. U-23327**
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FOR APPROVAL OF PROPOSED	**)**
BUSINESS COMBINATION	**)**

DIRECT TESTIMONY OF LANE KOLLEN

I. QUALIFICATIONS AND SUMMARY

Q. Please state your name and business address.

A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 35 Glenlake Parkway, Suite 475, Atlanta, Georgia 30328.

Q. What is your occupation and by whom are you employed?

A. I am a utility rate and planning consultant holding the position of Vice President and Principal with the firm of Kennedy and Associates.

Q. Please describe your education and professional experience.

A. I earned a Bachelor of Business Administration in Accounting degree from the University of Toledo. I also earned a Master of Business Administration degree from the University of Toledo. I am a Certified Public Accountant and a Certified Management Accountant.

I have been an active participant in the utility industry for more than twenty years, both as an employee and as a consultant. Since 1986, I have been a consultant with Kennedy and Associates, providing services to state government agencies and consumers of utility services in the ratemaking, financial, tax, accounting, and management areas. From 1983 to 1986, I was a consultant with Energy Management Associates, providing services to investor and consumer owned utility companies. From 1978 to 1983, I was employed by The Toledo Edison Company in a series of positions encompassing accounting, tax, financial, and planning functions.

I have appeared as an expert witness on accounting, finance, ratemaking, and planning issues before regulatory commissions and courts at the federal and state levels on more than one hundred occasions, including the Louisiana Public Service Commission on dozens of occasions. I have developed and presented papers at various industry conferences on ratemaking, accounting, and tax issues. My qualifications and regulatory appearances are further detailed in my Exhibit___(LK-1).

Q. Please describe the firm of Kennedy and Associates.

A. Kennedy and Associates provides consulting services in the electric, gas, and telecommunications utilities industries. The firm provides expertise in utility industry restructuring and transition issues, financial analysis, revenue requirements, cost of service, rate design, system planning and load forecasting. Clients include industrial electricity and gas consumers and state government agencies.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of the Louisiana Public Service Commission ("Commission") Staff ("Staff").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the Savings Sharing Mechanism ("SSM") and the affiliate transaction guidelines components of the Staff's regulatory plan.

Q. Please summarize your testimony.

A. The SSM is an integral component of the Staff's regulatory plan. The SSM provides an objective measurement of achieved merger savings resulting in timely rate reduction benefits to ratepayers and retained benefits to SWEPCO. The SSM quantifies achieved merger savings as the difference between the future test year actual and the base test year escalated operation and maintenance ("O&M") expense. Achieved merger savings will be shared 65% to ratepayers implemented through rate reductions following merger consummation. The savings will be shared 35% to SWEPCO through an SSM expense included as a cost of service in the Company's rate reviews and revenue requirement filings, if any, over the next ten years.

The affiliate transaction guidelines provide the Company a ratemaking framework for pricing affiliate transactions that affect the retail cost of service and revenue requirement. These guidelines address the ability of the Commission to review the costs incurred and revenues recognized by SWEPCO due to affiliate transactions, including the purchase and sale of goods and services and assets. The guidelines are necessary to protect ratepayer interests as CSW and AEP restructure into a combined company. These guidelines do not address specific cost allocation methodologies for the new AEP Service Company ("AEPSC") or other affiliates.

II. SAVINGS SHARING MECHANISM

Q. Please describe the Savings Sharing Mechanism component of the Staff's regulatory plan.

A. The SSM provides an objective measurement of achieved nonfuel merger savings, including the effects of savings from affiliate cost allocations, primarily the savings from combining the CSW and AEP service companies. The measurement of savings is necessary in order to quantify the savings that should be flowed through on a timely basis to ratepayers and the savings that will be retained by SWEPCO. The savings retained by SWEPCO will enable the Company to amortize its share of the merger-related costs. In addition, the SSM will operate as an incentive for SWEPCO actually to achieve savings because it will be able to retain a portion of the savings.

The measurement of savings is based upon a formula approach whereby actual future test year O&M expense is subtracted from escalated normalized base test year O&M expense. The base test year and the future test year will be stated on a Louisiana jurisdictional ratemaking basis and will be consistent with prior Commission orders and reflect the normalization of certain expenses.

Sixty-five percent of the savings will be flowed through to ratepayers through an annual surcredit computed as a uniform percentage of nonfuel base revenues. Thirty-five percent of the savings will be retained by SWEPCO as a cost of service in the post-merger earnings review and any subsequent earnings reviews or revenue requirement filings for the ten years following merger consummation.

Q. Does the SSM provide guaranteed rate reductions to ratepayers?

A. No. First, there must be SSM savings in the future test year in order for there to be rate reductions, all else being equal. Second, if there are increases in SWEPCO's overall cost of service and revenue requirement, then SWEPCO may file a comprehensive revenue requirement study in order to demonstrate why it should not be required to flow through the ratepayers' share of the SSM savings. However, this revenue requirement study must be consistent with prior Commission decisions and will be subject to review and decision by the full Commission. SWEPCO and other parties may propose new adjustments to revenue requirements, separately identified and quantified, which will be subject to review and decision by the full Commission, but with prospective application only. In other words, neither SWEPCO nor other parties may propose new adjustments to the future test year revenue requirement that will delay the timing or affect the amount of the flow through of merger savings to ratepayers, except prospectively.

Q. Does the SSM provide guaranteed or fixed recovery to SWEPCO of its share of merger-related costs?

A. No. First, SWEPCO actually must achieve savings in order to retain savings to recover its costs related to the merger. The Staff's regulatory plan precludes the Company from a direct or fixed recovery of these costs, instead requiring SWEPCO to utilize its share of retained savings for that purpose. Second, SWEPCO is provided an incentive to achieve savings in excess of its costs, which it also may retain.

Q. Please describe the derivation of the base test year O&M expense.

A. The Commission should utilize SWEPCO's 1998 actual O&M expense, stated on a Louisiana retail jurisdictional basis, adjusted to: 1) exclude fuel and purchased power expenses recoverable through the fuel clause, adjusted to exclude operating lease expenses; 2) state certain expenses on a basis consistent with prior Commission decisions (for example, to exclude charitable contributions, lobbying, and other nonrecoverable expenses and to reflect the Commission' decision on SFAS 106 other postretirement benefits expense, etc.); 3) exclude merger costs to achieve pre-merger initiatives; and 4) normalize and amortize certain other expenses, including outage expenses.

Q. Please describe the derivation of the future test year O&M expense.

A. The Commission should utilize SWEPCO's actual O&M expense for the twelve months ended future test year, stated on a Louisiana retail jurisdictional basis, adjusted in the same manner as the base test year.

Q. Please describe the escalators that will be applied to the base test year O&M expense.

A. Nonlabor base test year O&M expense will be escalated to future test year levels by the annual change in the Consumer Price Index ("CPI") - Urban. Labor base test year O&M expense will be escalated to future test year levels by the annual change in the CPI - Urban less a 1% annual productivity improvement factor. The CPI - Urban is developed by the U. S. Bureau of Labor Statistics and is publicly and readily available.

The CPI - Urban is an appropriate escalator for non-labor expense because it represents a measure of inflation across a broad cross-section of goods and services. The CPI - Urban also provides an appropriate escalator for labor expense before offsets to reflect increased productivity. A productivity offset is necessary to reflect the need for less labor due to improving productivity trends nationally and the industry-wide focus on cost reduction. A 1% productivity factor is less than national recent historic experience.

Q. What underlying data did you analyze relating to proposed sharing of merger savings?

A. The SSM is designed to quantify merger savings and to provide incentives to SWEPCO actually to achieve higher levels of merger savings. However, SWEPCO already had underway savings initiatives as a standalone company, the "pre-merger initiatives" savings, which are not merger related. Pre-merger savings normally would inure 100% to ratepayers. The Applicants proposed a sharing of estimated merger-related savings, 50% to ratepayers and 50% to SWEPCO. However, the SSM measures total actual achieved savings, excluding all costs to achieve, and does not distinguish between pre-merger initiative and merger savings.

SWEPCO's share of the ten year gross savings from pre-merger initiatives is $69,595 million, which would inure 100% to ratepayers. SWEPCO's share of the ten year gross merger savings is $214.918 million, which Applicants proposed would be allocated 50% to ratepayers and 50% to SWEPCO. The mathematical weighting to ratepayers is 62%.

Q. Have you quantified the 1998 base test year O&M expense that should be utilized in the SSM?

A. No. First, the Staff believes that the base test year O&M expense best can be developed through a collaborative effort with the Company. Second, actual 1998 data will not be available until January 1999.

Q. Have you developed a firm schedule for the timing of the SSM filings and attendant rate reductions?

A. The initial SSM rate reductions will be subsumed within the post-merger earnings review component of the Staff's regulatory plan. The effective date of the Commission's order ~~is~~ in the post-merger earnings review likely will be two years after consummation of the merger. Thereafter, annual SSM filings by SWEPCO will be followed by SSM rate reductions. The first annual SSM filing should be made by the end of the 13th month following the effective date of the Commission's order in the post-merger earnings review, with the rate reductions effective in the 14th month. The subsequent annual SSM filings and rate reductions will repeat on a 12 month cycle. To the extent that SWEPCO files a revenue requirement study in support of an offset to the SSM savings, then the Commission should establish an expedited schedule for review and decision, preferably six months or less.

III. AFFILIATE TRANSACTION GUIDELINES

Q. Why is it necessary to establish formal guidelines for affiliate transactions in this merger proceeding?

A. First, there are significant changes that will occur in affiliate transaction activity and the levels of costs that will be incurred by SWEPCO and included in its cost of service because of the merger. These changes will occur primarily because of the consolidation of the CSW and AEP service companies into AEPSC. There also will be changes in other affiliate transaction activity, some of which are unknown at this time.

Second, the Company has articulated a policy in its testimony of utilizing tariffs for pricing affiliate transaction activity if available and cost if tariffs are unavailable. Although the Staff is not opposed conceptually to this policy, the Company's policy is limited in that it does not address all affiliate transaction activity, provide a comprehensive ratemaking framework for affiliate transactions, or provide sufficient protection to ratepayers.

Third, significant changes within the utility industry, as evidenced by this merger, necessitate a more comprehensive policy toward affiliate transactions and a ratemaking framework to assess the affiliate transactions and costs affecting the Louisiana retail revenue requirement. The significant changes occurring within the utility industry include federal and state activities to deregulate the generation function, FERC Order 888 and the establishment of ISOs, changes in federal regulation allowing holding companies such as the combined CSW/AEP to engage in nonregulated activities, including telecommunications, ownership of foreign utilities, and development and operation of exempt wholesale generators.

Q. What is the purpose of the affiliate transaction guidelines component of the Staff's regulatory plan?

A. First, the affiliate transaction guidelines ensure that the Commission can continue to effectively perform its constitutional mandate to regulate the rates of SWEPCO.

Second, the affiliate transaction guidelines provide the Company a ratemaking framework for pricing affiliate transactions that affect the retail cost of service and revenue requirement. These guidelines address the purchase and sale of goods and services and assets. These guidelines do not address specific cost allocation methodologies for the new AEPSC or other affiliates. Under the Staff's regulatory plan, the Staff will conduct a detailed post-merger review of the actual implementation of the Company's new affiliate relationships and transactions, affiliate cost allocation methodologies, and pricing, the effects of which will be reflected in the SSM along with other merger savings.

Third, the affiliate transaction guidelines provide protection to ratepayers against affiliate transaction abuse and cross subsidization of nonregulated activities by the Company's retail ratepayers. For example, in the absence of these guidelines, the Company could sell its generating assets to a nonregulated affiliate at cost, resell the same assets to a nonaffiliated third party at a substantial gain, and then retain that "nonregulated" gain for its shareholders. Similarly, the Company could purchase assets at cost from a nonregulated affiliate that were worth less than cost in order to relieve the nonregulated affiliate from recognizing the loss in the assets' value.

Q. Has the FERC adopted affiliate transaction guidelines?

A. No. However, the FCC has adopted affiliate transaction guidelines, codified in Part 32 of the FCC's Uniform System of Accounts that can be adapted to the electric utility industry. Part 32 provides guidelines for the sale or purchase of assets to and from affiliates and the pricing of transactions for the sale and purchase of services and other goods to and from affiliates. The scope of the FCC's guidelines is the same as the scope of guidelines proposed by the Staff in this proceeding for SWEPCO. In fact, the policy articulated by SWEPCO in this proceeding regarding the use of tariffs for affiliate transaction pricing is one of the FCC's Part 32 requirements. SWEPCO's policy is not found in FERC regulations.

Q. Have you developed affiliate transaction guidelines that the Commission should adopt as a component of the Staff's regulatory plan?

A. Yes. I recommend that the Commission adopt the following guidelines, which parallel in part the FCC Part 32 guidelines modified to apply to SWEPCO as an electric utility subsidiary of a public utility holding company. These guidelines are for retail ratemaking purposes and are not intended to usurp the authority of the SEC or the FERC for financial reporting and wholesale ratemaking purposes.

1. AEP must give first priority in allocating resources to the capital requirements of its domestic public utility subsidiaries.

2. AEP will provide the Louisiana Commission access to the books and records of AEP, and to any records of its subsidiaries and affiliates that reasonably relate to regulatory concerns and that affect SWEPCO's cost of service and revenue requirement.

3. AEP will cooperate fully with any audits ordered by the Louisiana Commission of affiliate transactions between SWEPCO and other AEP affiliates, including timely access to books and records and to persons knowledgeable regarding affiliate transactions, and directing its external auditor to make available its audit workpapers covering areas that affect the costs and pricing of affiliate transactions.

4. Unless otherwise approved by the Commission, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the electric utility in its regulated accounts as follows:

   a. For assets purchased by or transferred to the regulated electric utility (SWEPCO) from affiliates, the amounts recorded by the utility shall be the lower of their cost to the originating activity and the affiliated group (AEP) less all applicable valuation reserves (previous writedowns), or their fair market value.

   b. For assets sold by or transferred from the regulated electric utility (SWEPCO) to affiliates, the amounts recorded by the utility shall be the higher of their cost to SWEPCO less all applicable valuation reserves (previous writedowns), or their fair market value.

5. The Company shall notify the Commission in writing at least 90 days in advance of a proposed purchase, sale or transfer of assets with a net book value in excess of $1 million and provide such information as may be necessary to enable the Commission Staff to review the proposed transaction.

6. The Company shall have the burden of proof in any subsequent ratemaking proceeding to demonstrate that the proposed purchase, sale or transfer of assets is in the public interest and does not and will not harm ratepayers.

7. The Commission shall reserve the right to determine the ratemaking treatment of any gains from the sale or transfer of assets to affiliates at fair market value in excess of book value.

8. For goods and services sold by the utility to other affiliates, including lease costs or other costs not meeting the legal definition of goods and services, transactions shall be priced according to tariff, if a tariffed service, or if not a tariffed service then at fully distributed cost so long as the "at cost" rule of the PUHCA applies. If the "at cost" rule no longer applies, then transactions shall be priced at the higher of fully distributed cost or fair market value.

9. For goods and services purchased by the utility from other affiliates, including lease costs or other costs not meeting the legal definition of goods and services, transactions shall be priced according to tariff, if a tariffed service, or if not a tariffed service, then at the lower of fully distributed cost or market.

10. For ratemaking and surveillance reporting purposes, the Company is required to reflect the costs assigned or allocated from affiliate service companies on the same basis as if SWEPCO had incurred the costs directly.

11. The Company shall file with the Commission any changes to the AEPSC and other affiliate cost allocation methodologies that affect SWEPCO's regulated costs, including a description of the changes, the reasons for such changes, and the quantification on an annual basis of such changes on SWEPCO's regulated costs. To the extent any such changes are filed with the SEC or FERC, the Company agrees to notify the Commission 90 days prior to those filings to allow the Commission a timely opportunity to respond to such filings. The filing by the Company of this information with the Commission shall not constitute acceptance of the allocation methodologies or the quantifications for ratemaking purposes.

12. Neither SWEPCO or AEPSC on behalf of SWEPCO may make a procurement in excess of $1 million from a non-regulated affiliate except through a competitive bidding process or as otherwise authorized by this Commission. The terms and conditions of any competitive bidding procedure relating to such procurement must be approved in advance by this Commission. The failure by SWEPCO or AEP to obtain such approval or to secure any other required regulatory authorization for such procurement would subject SWEPCO to the disallowance of amounts expended in excess of market price or the cost of such procurement, whichever is lower.

13. If an unregulated business markets a product or service that was developed by SWEPCO or paid for by SWEPCO directly or through an affiliate and is actually used by SWEPCO, all profits on the sale of the product or service shall be split evenly between SWEPCO, which was responsible for developing the product, and the non-regulated business responsible for marketing the product or service to third parties, after deducting all incremental costs associated with making the product or service available for sale, including the direct cost of marketing such product or service. However, in the event that a product or service developed by SWEPCO to be used in its utility business is not actually so used, and subsequently is marketed by the non-regulated business to third parties, SWEPCO shall be entitled to recover all of its costs to develop such product or service before any profits derived from its marketing shall be so divided.

Q. Does this complete your testimony?

A. Yes.

AFFIDAVIT

State of Georgia
County of Fulton

Subscribed and sworn to before me, a notary public in and for the State and County aforesaid.

Lane Kollen

Lane Kollen

My commission expires:

Notary Public, Cobb County, Georgia
My Commission Expires January [illegible]

Date: November 18, 1998

Barbara J. Trojanowski

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

JOINT APPLICATION OF	)	
SOUTHWESTERN ELECTRIC POWER COMPANY,	)	
CENTRAL AND SOUTH WEST CORPORATION,	)	DOCKET NO. U-23327
AND AMERICAN ELECTRIC POWER COMPANY, INC.	)	
FOR APPROVAL OF PROPOSED	)	
BUSINESS COMBINATION	)	

EXHIBIT

OF

LANE KOLLEN

ON BEHALF OF

LOUISIANA PUBLIC SERVICE COMMISSION STAFF

J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA

NOVEMBER 1998

RESUME OF LANE KOLLEN, VICE PRESIDENT

EDUCATION

University of Toledo, BBA
Accounting

University of Toledo, MBA

PROFESSIONAL CERTIFICATIONS

Certified Public Accountant (CPA)

Certified Management Accountant (CMA)

PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants

Georgia Society of Certified Public Accountants

Institute of Certified Management Accountants

Institute of Management Accountants

Seventeen years utility industry experience in the financial, rate, and planning areas. Specialization in revenue requirements analyses, taxes, evaluation of rate and financial impacts of traditional and nontraditional ratemaking, utility mergers/acquisition diversification. Expertise in proprietary and nonproprietary software systems used by utilities for budgeting, rate case support and strategic and financial planning.

RESUME OF LANE KOLLEN, VICE PRESIDENT

EXPERIENCE

1986 to Present: Kennedy and Associates: Vice President and Principal. Responsible for utility revenue requirements analysis, cash flow projections and solvency, financial and cash effects of traditional and nontraditional ratemaking, and research, speaking and writing on the effects of tax law changes. Testimony before Connecticut, Florida, Georgia, Indiana, Louisiana, Kentucky, Minnesota, North Carolina, Ohio, Pennsylvania, Texas, and West Virginia Public Service Commissions and the Federal Energy Regulatory Commission.

1983 to 1986: Energy Management Associates: Lead Consultant.
Consulting in the areas of strategic and financial planning, traditional and nontraditional ratemaking, rate case support and testimony, diversification and generation expansion planning. Directed consulting and software development projects utilizing PROSCREEN II and ACUMEN proprietary software products. Utilized ACUMEN detailed corporate simulation system, PROSCREEN II strategic planning system and other custom developed software to support utility rate case filings including test year revenue requirements, rate base, operating income and pro-forma adjustments. Also utilized these software products for revenue simulation, budget preparation and cost-of-service analyses.

1976 to 1983: The Toledo Edison Company: Planning Supervisor.
Responsible for financial planning activities including generation expansion planning, capital and expense budgeting, evaluation of tax law changes, rate case strategy and support and computerized financial modeling using proprietary and nonproprietary software products. Directed the modeling and evaluation of planning alternatives including:

- Rate phase-ins.
- Construction project cancellations and write-offs.
- Construction project delays.
- Capacity swaps.
- Financing alternatives.
- Competitive pricing for off-system sales.
- Sale/leasebacks.

RESUME OF LANE KOLLEN, VICE PRESIDENT

CLIENTS SERVED

Industrial Companies and Groups

Air Products and Chemicals, Inc.
Airco Industrial Gases
Alcan Aluminum
Armco Advanced Materials Co.
Armco Steel
Bethlehem Steel
Connecticut Industrial Energy Consumers
ELCON
Enron Gas Pipeline Company
Florida Industrial Power Users Group
General Electric Company
GPU Industrial Intervenors
Indiana Industrial Group
Industrial Consumers for
Fair Utility Rates - Indiana
Industrial Energy Consumers - Ohio
Kentucky Industrial Utility Consumers
Lehigh Valley Power Committee
Maryland Industrial Group
Multiple Intervenors (New York)
National Southwire
North Carolina Industrial
Energy Consumers
Occidental Chemical Corporation
Ohio Industrial Energy Consumers
Ohio Manufacturers Association
Philadelphia Area Industrial Energy
Users Group
PSI Industrial Group
Smith Cogeneration
Taconite Intervenors (Minnesota)
West Penn Power Industrial Intervenors
West Virginia Energy Users Group
Westvaco Corporation

Regulatory Commissions and Government Agencies

Georgia Public Service Commission Staff
Kentucky Attorney General's Office, Division of Consumer Protection
Louisiana Public Service Commission Staff
New York State Energy Office
Office of Public Utility Counsel (Texas)

Utilities

Allegheny Power System
Atlantic City Electric Company
Carolina Power & Light Company
Cleveland Electric Illuminating Company
Delmarva Power & Light Company
Duquesne Light Company
General Public Utilities
Georgia Power Company
Middle South Services
Nevada Power Company
Niagara Mohawk Power Corporation
Otter Tail Power Company
Pacific Gas & Electric Company
Public Service Electric & Gas
Public Service of Oklahoma
Rochester Gas and Electric
Savannah Electric & Power Company
Seminole Electric Cooperative
Southern California Edison
Talquin Electric Cooperative
Tampa Electric
Texas Utilities
Toledo Edison Company

Expert Testimony Appearances
of
Lane Kollen
As of November 1998

Date	Case	Jurisdict.	Party	Utility	Subject
10/86	U-17282 Interim	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
11/86	U-17282 Interim Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
12/86	9613	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Revenue requirements accounting adjustments financial workout plan.
1/87	U-17282 Interim	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements, financial solvency.
3/87	General Order 236	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Tax Reform Act of 1986.
4/87	U-17282 Prudence	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
4/87	M-100 Sub 113	NC	North Carolina Industrial Energy Consumers	Duke Power Co.	Tax Reform Act of 1986.
5/87	86-524-E-	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements. Tax Reform Act of 1986.
5/87	U-17282 Case In Chief	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Case In Chief Surrebut	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Prudence Surrebut	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
7/87	86-524 E-SC Rebuttal	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements, Tax Reform Act of 1986.
8/87	9885	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Financial workout plan.
8/87	E-015/GR-87-223	MN	Taconite Intervenors	Minnesota Power & Light Co.	Revenue requirements, O&M expense, Tax Reform Act of 1986.

Expert Testimony Appearances
of
Lane Kollen
As of November 1998

Date	Case	Jurisdict.	Party	Utility	Subject
10/87	870220-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, Tax Reform Act of 1986.
11/87	87-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Tax Reform Act of 1986.
1/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, rate of return.
2/88	9934	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Economics of Trimble County completion.
2/88	10064	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, O&M expense, capital structure, excess deferred income taxes.
5/88	10217	KY	Alcan Aluminum National Southwire	Big Rivers Electric Corp.	Financial workout plan.
5/88	M-87017 -1C001	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery.
5/88	M-87017 -2C005	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery.
6/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1 economic analyses, cancellation studies, financial modeling.
7/88	M-87017- -1C001 Rebuttal	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery, SFAS No. 92
7/88	M-87017- -2C005 Rebuttal	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery, SFAS No. 92
9/88	88-05-25	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Excess deferred taxes, O&M expenses.
9/88	10064 Rehearing	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Premature retirements, interest expense.
10/88	88-170-EL-AIR	OH	Ohio Industrial Energy Consumers	Cleveland Electric Illuminating Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.

Expert Testimony Appearances
of
Lane Kollen
As of November 1998

Date	Case	Jurisdict.	Party	Utility	Subject
10/88	88-171-EL-AIR	OH	Ohio Industrial Energy Consumers	Toledo Edison Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.
10/88	8800 355-EI	FL	Florida Industrial Power Users' Group	Florida Power & Light Co.	Tax Reform Act of 1986, tax expenses, O&M expenses, pension expense (SFAS No. 87).
10/88	3780-U	GA	Georgia Public Service Commission Staff	Atlanta Gas Light Co.	Pension expense (SFAS No. 87).
11/88	U-17282 Remand	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Rate base exclusion plan (SFAS No. 71)
12/88	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87).
12/88	U-17949 Rebuttal	LA	Louisiana Public Service Commission Staff	South Central Bell	Compensated absences (SFAS No. 43), pension expense (SFAS No. 87), Part 32, income tax normalization.
2/89	U-17282 Phase II	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, phase-in of River Bend 1, recovery of canceled plant.
6/89	881602-EU 890326-EU	FL	Talquin Electric Cooperative	Talquin/City of Tallahassee	Economic analyses, incremental cost-of-service, average customer rates.
7/89	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87), compensated absences (SFAS No. 43), Part 32.
8/89	8555	TX	Occidental Chemical Corp.	Houston Lighting & Power Co.	Cancellation cost recovery, tax expense, revenue requirements.
8/89	3840-U	GA	Georgia Public Service Commission Staff	Georgia Power Co.	Promotional practices, advertising, economic development.
9/89	U-17282 Phase II Detailed	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
10/89	8880	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Deferred accounting treatment, sale/leaseback.
10/89	8928	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Revenue requirements, imputed capital structure, cash working capital.

Expert Testimony Appearances
of
Lane Kollen
As of November 1998

Date	Case	Jurisdict.	Party	Utility	Subject
10/89	R-891364	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements.
11/89 12/89	R-891364 Surrebuttal (2 Filings)	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements, sale/leaseback.
1/90	U-17282 Phase II Detailed Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
1/90	U-17282 Phase III	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Phase-in of River Bend 1, deregulated asset plan.
3/90	890319-EI	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	890319-EI Rebuttal	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Fuel clause, gain on sale of utility assets.
9/90	90-158	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, post-test year additions, forecasted test year.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements.
3/91	29327, et. al.	NY	Multiple Intervenors	Niagara Mohawk Power Corp.	Incentive regulation.
5/91	9945	TX	Office of Public Utility Counsel of Texas	El Paso Electric Co.	Financial modeling, economic analyses, prudence of Palo Verde 3.
9/91	P-910511 P-910512	PA	Allegheny Ludlum Corp., Armco Advanced Materials Co., The West Penn Power Industrial Users' Group	West Penn Power Co.	Recovery of CAAA costs, least cost financing.
9/91	91-231 -E-NC	WV	West Virginia Energy Users Group	Monongahela Power Co.	Recovery of CAAA costs, least cost financing.
11/91	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Asset impairment, deregulated asset plan, revenue requirements.

Expert Testimony Appearances of Lane Kollen As of November 1998

Date	Case	Jurisdict.	Party	Utility	Subject
12/91	91-410-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
12/91	10200	TX	Office of Public Utility Counsel of Texas	Texas-New Mexico Power Co.	Financial integrity, strategic planning, declined business affiliations.
5/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, pension expense, OPEB expense, fossil dismantling, nuclear decommissioning.
8/92	R-00922314	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
9/92	92-043	KY	Kentucky Industrial Utility Consumers	Generic Proceeding	OPEB expense.
9/92	920324-EI	FL	Florida Industrial Power Users' Group	Tampa Electric Co.	OPEB expense.
9/92	39348	IN	Indiana Industrial Group	Generic Proceeding	OPEB expense.
9/92	910840-PU	FL	Florida Industrial Power Users' Group	Generic Proceeding	OPEB expense.
9/92	39314	IN	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	OPEB expense.
11/92	U-19904	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
11/92	8649	MD	Westvaco Corp., Eastalco Aluminum Co.	Potomac Edison Co.	OPEB expense.
11/92	92-1715-AU-COI	OH	Ohio Manufacturers Association	Generic Proceeding	OPEB expense.
12/92	R-00922378	PA	Armco Advanced Materials Co., The WPP Industrial Intervenors	West Penn Power Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
12/92	U-19949	LA	Louisiana Public Service Commission Staff	South Central Bell	Affiliate transactions, cost allocations, merger.

Expert Testimony Appearances
of
Lane Kollen
As of November 1998

Date	Case	Jurisdict.	Party	Utility	Subject
12/92	R-00922479	PA	Philadelphia Area Industrial Energy Users' Group	Philadelphia Electric Co.	OPEB expense.
1/93	8487	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Bethlehem Steel Corp.	OPEB expense, deferred fuel, CWIP in rate base
1/93	39498	IN	PSI Industrial Group	PSI Energy, Inc.	Refunds due to over-collection of taxes on Marble Hill cancellation.
3/93	92-11-11	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	OPEB expense.
3/93	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
3/93	93-01 EL-EFC	OH	Ohio Industrial Energy Consumers	Ohio Power Co.	Affiliate transactions, fuel.
3/93	EC92-21000 ER92-806-000	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
4/93	92-1464-EL-AIR	OH	Air Products Armco Steel Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
4/93	EC92-21000 ER92-806-000 (Rebuttal)	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
9/93	93-113	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Fuel clause and coal contract refund.
9/93	92-490, 92-490A, 90-360-C	KY	Kentucky Industrial Utility Customers and Kentucky Attorney General	Big Rivers Electric Corp.	Disallowances and restitution for excessive fuel costs, illegal and improper payments, recovery of mine closure costs.
10/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Revenue requirements, debt restructuring agreement, River Bend cost recovery.
1/94	U-20647	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	Audit and investigation into fuel clause costs.

**Expert Testimony Appearances
of
Lane Kollen
As of November 1998**

Date	Case	Jurisdict.	Party	Utility	Subject
4/94	U-20647 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Nuclear and fossil unit performance, fuel costs, fuel clause principles and guidelines.
5/94	U-20178	LA	Louisiana Public Service Commission	Louisiana Power & Light Co.	Planning and quantification issues of least cost integrated resource plan.
9/94	U-19904 Initial Post-Merger Earnings Review	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
9/94	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	G&T cooperative ratemaking policies, exclusion of River Bend, other revenue requirement issues.
10/94	3905-U	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Incentive rate plan, earnings review.
10/94	5258-U	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Alternative regulation, cost allocation.
11/94	U-19904 Initial Post-Merger Earnings Review (Rebuttal)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
11/94	U-17735 (Rebuttal)	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, exclusion of River Bend, other revenue requirement issues.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Revenue requirements. Fossil dismantling, nuclear decommissioning.
6/95	3905-U	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Incentive regulation, affiliate transactions, revenue requirements, rate refund.
6/95	U-19904 (Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
10/95	95-02614	TN	Tennessee Office of the Attorney General Consumer Advocate	BellSouth Telecommunications, Inc.	Affiliate transactions.
10/95	U-21485 (Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.

**Expert Testimony Appearances
of
Lane Kollen
As of November 1998**

Date	Case	Jurisdict.	Party	Utility	Subject
11/95	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Division	Gulf States Utilities Co.	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
11/95 12/95	U-21485 (Supplemental Direct) U-21485 (Surrebuttal)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.
1/96	95-299-EL-AIR 95-300-EL-AIR	OH	Industrial Energy Consumers	The Toledo Edison Co. The Cleveland Electric Illuminating Co.	Competition, asset writeoffs and revaluation, O&M expense, other revenue requirement issues.
2/96	PUC No. 14967	TX	Office of Public Utility Counsel	Central Power & Light	Nuclear decommissioning.
5/96	95-485-LCS	NM	City of Las Cruces	El Paso Electric Co.	Stranded cost recovery, municipalization.
7/96	8725	MD	The Maryland Industrial Group and Redland Genstar, Inc.	Baltimore Gas & Electric Co., Potomac Electric Power Co. and Constellation Energy Corp.	Merger savings, tracking mechanism, earnings sharing plan, revenue requirement issues.
9/96 11/96	U-22092 U-22092 (Surrebuttal)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues, allocation of regulated/nonregulated costs.
10/96	96-327	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corp.	Environmental surcharge recoverable costs.
2/97	R-00973877	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Stranded cost recovery, regulatory assets and liabilities, intangible transition charge, revenue requirements.
3/97	96-489	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	Environmental surcharge recoverable costs, system agreements, allowance inventory, jurisdictional allocation.
6/97	TO-97-397	MO	MCI Telecommunications Corp., Inc., MCImetro Access Transmission Services, Inc.	Southwestern Bell Telephone Co.	Price cap regulation, revenue requirements, rate of return.

Expert Testimony Appearances
of
Lane Kollen
As of November 1998

Date	Case	Jurisdict.	Party	Utility	Subject
6/97	R-00973953	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
7/97	R-00973954	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
7/97	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Depreciation rates and methodologies, River Bend phase-in plan.
8/97	97-300	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas & Electric Co. and Kentucky Utilities Co.	Merger policy, cost savings, surcredit sharing mechanism, revenue requirements, rate of return.
8/97	R-00973954 (Surrebuttal)	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
10/97	97-204	KY	Alcan Aluminum Corp. Southwire Co.	Big Rivers Electric Corp.	Restructuring, revenue requirements, reasonableness of rates.
10/97	R-974008	PA	Metropolitan Edison Industrial Users Group	Metropolitan Edison Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements.
10/97	R-974009	PA	Penelec Industrial Customer Alliance	Pennsylvania Electric Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements.
11/97	97-204 (Rebuttal)	KY	Alcan Aluminum Corp. Southwire Co.	Big Rivers Electric Corp.	Restructuring, revenue requirements, reasonableness of rates, cost allocation.
11/97	U-22491	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, other revenue requirement issues.
11/97	R-00973953 (Surrebuttal)	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.

Expert Testimony Appearances of Lane Kollen As of November 1998

Date	Case	Jurisdict.	Party	Utility	Subject
11/97	R-973981	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, fossil decommissioning, revenue requirements, securitization.
11/97	R-9742104	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements, securitization.
12/97	R-973981 (Surrebuttal)	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, fossil decommissioning, revenue requirements.
12/97	R-974104 (Surrebuttal)	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements, securitization.
1/98	U-22491 (Surrebuttal)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, other revenue requirement issues.
2/98	8774	MD	Westvaco	Potomac Edison Co.	Merger of Duquesne, AE, customer safeguards, savings sharing.
3/98	U-22092 (Allocated Stranded Cost Issues)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Restructuring, stranded costs, regulatory assets, securitization, regulatory mitigation.
3/98	8390-U	GA	Georgia Natural Gas Group, Georgia Textile Manufacturers Assoc.	Atlanta Gas Light Co.	Restructuring, unbundling, stranded costs, incentive regulation, revenue requirements.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Restructuring, unbundling, stranded cost, T&D revenue requirements.
10/98	9355-U	GA	Georgia Public Service Commission Advocate Staff	Georgia Power Co.	Affiliate transactions.
10/98	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, other revenue requirement issues.

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

JOINT APPLICATION OF	)
SOUTHWESTERN ELECTRIC POWER COMPANY,	)
CENTRAL AND SOUTH WEST CORPORATION,	) DOCKET NO. U-23327
AND AMERICAN ELECTRIC POWER COMPANY, INC.	)
FOR APPROVAL OF PROPOSED	)
BUSINESS COMBINATION	)

ADDITIONAL DIRECT TESTIMONY OF LANE KOLLEN

ON BEHALF OF

LOUISIANA PUBLIC SERVICE COMMISSION STAFF

J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA

JULY 1999

385486/1

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

JOINT APPLICATION OF SOUTHWESTERN ELECTRIC POWER COMPANY, CENTRAL AND SOUTH WEST CORPORATION, AND AMERICAN ELECTRIC POWER COMPANY, INC. FOR APPROVAL OF PROPOSED BUSINESS COMBINATION	))) DOCKET NO. U-23327)))

ADDITIONAL DIRECT TESTIMONY OF

LANE KOLLEN

Q. Please state your name and business address.

A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 35 Glenlake Parkway, Suite 475, Atlanta, Georgia 30328.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. I filed Direct Testimony on behalf of the Commission Staff addressing the measurement and flow through to ratepayers of nonfuel merger savings through a Savings Sharing Mechanism ("SSM") in lieu of the Company's proposal for a fixed savings sharing. I also proposed certain affiliate conditions necessary to protect the benefits of the merger for ratepayers.

Q. What is the purpose of your Additional Direct Testimony?

A. The purpose of my testimony is to support the SSM and affiliate conditions incorporated in the Stipulation and Settlement between the Louisiana Public Service Commission Staff and the Applicants in this proceeding, American Electric Power Company ("AEP"), Central and Southwest Corporation ("CSW"), and Southwest Electric Power Company ("SWEPCO").

Q. Does the Stipulation and Settlement incorporate an SSM consistent with the Staff's proposal described in your Direct Testimony?

A. Yes. In my Direct Testimony, I outlined the Staff's proposal for an SSM. The Stipulation and Settlement incorporates the SSM and provides a detailed computational framework to measure savings in an objective manner. In addition, the Stipulation and Settlement describes in detail the implementation of the SSM in order to flow through savings to ratepayers, including the timing of the surcredits, and the annual review process necessary to ensure that ratepayers actually receive all rate reduction benefits that are appropriate.

Q. Please describe the computation of savings pursuant to the SSM.

A. The computation of savings pursuant to the SSM is explained in detail in the Stipulation and Settlement. The savings in nonfuel operation and maintenance (O&M) expense resulting from the merger will be quantified in accordance with a formula-based methodology and shared equally between ratepayers and shareholders.

Merger savings will be computed annually as the difference between the future year normalized O&M and the base year normalized O&M, adjusted for inflation and productivity improvements. The ratepayer share of merger savings will be allocated to the Louisiana retail jurisdiction and then flowed through to ratepayers in the form of a surcredit.

The savings will be measured pursuant to a formula, which is detailed in the text of the Stipulation and Settlement and on Attachments A and B. The SSM formula compares the Company's future year normalized O&M expense (FYNE) to the 1998 base year normalized O&M expense (BYNE) escalated for inflation and reduced for productivity improvements. The 1998 base year normalized O&M expense, prior to the inflation and productivity adjustments, is based upon the actual pre-merger level of the Company's nonfuel O&M expense adjusted to reflect certain ratemaking adjustments, to remove operating lease costs, and to remove certain nonrecurring expenses (specifically identifiable and in excess of $1 million during the twelve-month period), including all merger costs. The derivation of the 1998 base year normalized O&M expense is detailed on Attachment A of the Stipulation and Settlement.

For each year subsequent to 1998, the base year normalized O&M will be escalated by an inflation factor reflecting the annual increase in the Consumer Price Index - Urban (CPI-U) less a 1.1% annual productivity adjustment. The future year normalized O&M expense will be based upon the actual post merger level of the Company's nonfuel O&M expenses adjusted to reflect certain ratemaking adjustments, to remove operating lease costs, and to remove certain nonrecurring expenses (specifically identifiable and in excess of $1 million during the twelve-month period), including all merger related costs and amortizations, in a manner similar to that of the base year normalized O&M. The formula for the future year normalized O&M is detailed on Attachment B of the Stipulation and Settlement.

In conjunction with the second SSM filing, but within 120 days of the end of the second SSM period, the Company also will file detailed financial information typically utilized in a revenue requirement filing, including a jurisdictional cost of service study. The detailed financial information will be provided in the format specified in Attachment D of the Stipulation and Settlement. However, the Company and other parties agree that the schedules filed pursuant to this provision will not be determinative for ratemaking purposes. Copies of the detailed financial information will be provided to the Commission's consultants and Special Counsel for review, analysis, and recommendations to the Commission.

Q. **Please explain how the SSM operates to flow through savings in the form of rate reductions.**

A. The Louisiana retail jurisdictional share of nonfuel O&M savings will be flowed through to customers through an annual surcredit effective initially and for the period beginning on the first day of the fifteenth month after the consummation of the merger. The surcredit in effect after the eighth annual filing will remain in effect unless and until the Commission issues an order in a base rate proceeding.

After the base rate cap expires (five years after the merger is closed), the Company will be allowed to file a claim for a base rate revenue deficiency as an offset to the SSM savings surcredit, which will be subject to an expedited six month review by the Commission. However, the surcredit may only be reduced prospectively after the Commission determines and approves a revenue requirement offset. It is important to note that even though the Company may be able to increase its rates after the expiration of the base rate cap, ratepayers will still receive the full benefits from their 50% share of merger cost savings. The surcredit will reduce the effect of any base rate increase that the Company is authorized to implement during the effective period of the SSM.

After the Company's base rate cap expires, but only through the effective date of the Company's last required SSM filing, the Company may include its retained savings, computed pursuant to the SSM, as a cost of service expense in its revenue requirement filed in conjunction with a comprehensive base rate proceeding. The Company may not include its retained share of savings, computed pursuant to the SSM, as a cost of service item in any revenue requirement filing to offset the SSM. In any base revenue requirement filing through the effective date of the Company's last required SSM filing, the Company will exclude the test year amount of the SSM surcredit from its per books and pro forma revenues.

Q. Does the Stipulation and Settlement require ratepayers to pay for the costs of the merger?

A. No. The Staff has insisted that the risk of the costs of the merger be retained by the Applicants. This position is consistent with sound regulatory policy and with Commission precedent. Consequently, the Stipulation and Settlement precludes the recovery of merger related costs from Louisiana ratepayers. However, the SSM agreement allows the Company to defer its merger-related costs and also allows the Company to use its retained share of the SSM savings in order to amortize and recover those deferred costs. The Company must achieve future year savings in order to recover the costs of the merger. Thus, there is no risk to ratepayers for the merger-related costs, only a sharing of the rewards of merger savings.

Q. Does this Stipulation and Settlement incorporate affiliate transaction conditions consistent with those proposed in your Direct Testimony?

A. Yes. The Company has agreed to each of the affiliate conditions described in my Direct Testimony, although certain changes have been made to clarify the conditions, specify their applications, and to address potential changes in the regulatory environment.

The Staff has insisted that such guidelines for affiliate transactions be established as a condition of the Commission's approval of this merger for several reasons. First, there will be significant changes that will occur in affiliate transaction activity and the level of affiliate costs that will be incurred by SWEPCO and included in its cost of service because of the merger. Second, significant changes in the electric utility industry have necessitated a comprehensive ratemaking framework for affiliate transactions that provide sufficient protection to Louisiana ratepayers from affiliate abuse. Third, the Staff wanted assurance that the Commission could and would be able to perform a review of the Company's affiliate transactions for ratemaking purposes within a reasonable time after the consummation of the merger.

Q. What are the affiliate transaction conditions that are included in the Stipulation and Settlement?

A. The agreed upon conditions are as follows:

1. CSW's domestic electric companies, including SWEPCO, will be core businesses for AEP. The Applicants commit, as part of their obligation to serve, to continue to meet the needs of SWEPCO's domestic regulated customers, including capital requirements, as long as SWEPCO is provided an opportunity to earn a fair return on its regulated investment in assets to provide service to customers, in accordance with regulatory precedent and applicable law.

2. AEP and SWEPCO will provide the Louisiana Commission access to their books and records, and to any records of their subsidiaries and affiliates that reasonably relate to regulatory concerns and that affect SWEPCO's cost of service and/or revenue requirement.

3. AEP will cooperate with audits ordered by the Louisiana Commission of affiliate transactions between SWEPCO and other AEP affiliates, including timely access to books and records and to persons knowledgeable regarding affiliate transactions, and will authorize and utilize its best efforts to obtain cooperation from its external auditor to make available the audit workpapers covering areas that affect the costs and pricing of affiliate transactions.

4. a. Assets with a net book value in excess of $1M per transaction, purchased by or transferred to the regulated electric utility (SWEPCO) from an unregulated affiliate either directly or indirectly (through another affiliate), must be valued for purposes of the Louisiana retail rate base (but not necessarily for book accounting purposes) at the lesser of the cost to the originating entity and the affiliated group (CSW or AEP) or the fair market value, unless otherwise authorized by applicable Commission rules, Orders, or other Commission requirements.

   b. Assets with a net book value in excess of $1M per transaction, sold by or transferred from the regulated electric utility (SWEPCO) to an unregulated affiliate either directly or indirectly (through another affiliate), with the exception of accounts receivable sold by SWEPCO to CSW Credit, must be valued for purposes of the Louisiana retail rate base (but not necessarily for book accounting purposes) at the greater of the cost to SWEPCO or the fair market value, unless otherwise authorized by applicable Commission rules, Orders, or other Commission requirements.

5. The Company shall comply with all requirements contained in the Commission's March, 1994 General Order (and any superseding General Order) regarding mergers, acquisitions and transfers of ownership and control regarding regulated utilities and their assets.

6. The Company shall notify the Commission in writing at least 90 days in advance of a proposed purchase, sale or transfer of assets with a net book value in excess of $1 million if such proposed purchase, sale or transfer is expected at least 90 days before the anticipated effective date of the transaction. With the notice, the Company shall provide such information as may be necessary to enable the Commission Staff to review the proposed transaction, including, without limitation, the identity of the asset to be transferred, the proposed transferor and transferee, the value at which the asset will be transferred, the net book value of the asset, and the anticipated effect on Louisiana retail customers. When such a transaction requires approval of a federal agency, under no circumstances shall such notification be less than 60 days in advance or such longer advance period as the applicable federal agency may from time to time prescribe. If not provided with the initial notice, the Company will provide the Commission with a copy of its federal filing at the same time it is submitted to the federal agency.

7. Consistent with applicable Commission and legal precedents and Commission General Orders, the Company shall have the burden of proof in any subsequent ratemaking proceeding to demonstrate that such purchase, sale or transfer of assets satisfies the requirements of applicable Commission and legal precedent and Commission General Orders, and will not harm retail ratepayers.

8. The Commission reserves the right, in accordance with Commission and legal precedents and Commission General Orders, to determine the ratemaking treatment of any gains or losses from the sale or transfer of assets to affiliates.

9. For goods and services, including lease costs, sold by SWEPCO to unregulated affiliates either directly or indirectly (through another affiliate), SWEPCO agrees that it will reflect the higher of cost or fair market value in operating income (or as an offset to operating expenses) for ratemaking

purposes, unless otherwise authorized by applicable Commission rules, Orders, or other Commission requirements (*e.g.*, Commission-approved tariffed rates).

10. With the exception of transactions between SWEPCO and CSW Credit, Inc. and AEPSC, for goods and services, including lease costs, purchased by SWEPCO from unregulated affiliates either directly or indirectly (through another affiliate), SWEPCO agrees that it will reflect the lower of cost or fair market value in operating expenses for ratemaking purposes, unless otherwise authorized by applicable Commission rules, Orders, or other Commission requirements.

11. For ratemaking and regulatory reporting purposes, SWEPCO shall reflect the costs assigned or allocated from affiliate service companies on the same basis as if SWEPCO had incurred the costs directly. This condition shall not apply to book accounting for affiliate transactions.

12. The Company shall submit in writing to the Commission any changes it proposes to the System Agreement, the System Integration Agreement and any other affiliate cost allocation agreements or methodologies that affect the allocation or assignment of costs to SWEPCO. The written submission to the Commission shall include a description of the changes, the reasons for such changes, and an estimate of the impact, on an annual basis, of such changes on SWEPCO's regulated costs. To the extent any such changes are filed with the SEC or FERC, the Company agrees to utilize its best efforts to notify the Commission at least 30 days prior to those filings, and at least 90 days prior to the proposed effective date of those changes or as early as reasonably practicable, to allow the Commission a timely opportunity to respond to such filings. If the documents to be filed with the SEC or the FERC are not finalized 30 days prior to the filing, the information required above may be provided by letter to the Commission with a copy of the SEC or FERC filing to be provided as soon as it is prepared. The filing by the Company of this information with the Commission shall not constitute acceptance of the proposed changes, the allocation or assignment methodologies, or the quantifications for ratemaking purposes.

13. SWEPCO or AEPSC on behalf of SWEPCO may not make any non-emergency procurement in excess of $1 million per transaction from an affiliate other than from AEPSC except through a competitive bidding process or as otherwise authorized by this Commission. Transactions involving the Company and CSW Credit, Inc. (or its successor) for the financing of accounts receivables are exempt from this condition. Records of all such affiliate transactions must be maintained until the Company's next comprehensive retail rate review. In addition, at the time of the next

comprehensive rate review, all such affiliate transactions that were not competitively bid shall be separately identified for the Commission by the Company. This identification shall include all transactions between the Company and AEPSC in which AEPSC acquired the goods or services from another unregulated affiliate.

14. If an unregulated business markets a product or service that was developed by SWEPCO or paid for by SWEPCO directly or through an affiliate, and the product or service is actually used by SWEPCO, all profits on the sale of such product or service (based on Louisiana retail jurisdiction) shall be split evenly between SWEPCO, which was responsible for or shared the cost of developing the product, and the unregulated business responsible for marketing the product or service to third parties, after deducting all incremental costs associated with making such product or service available for sale, including the direct cost of marketing such product or service. However, in the event that such a product or service developed by SWEPCO to be used in its utility business is not actually so used, and subsequently is marketed by the unregulated business to third parties, SWEPCO shall be entitled to recover all of its costs to develop such product or service before any such net profits derived from its marketing shall be so divided. If SWEPCO jointly develops such product or service and shares the development with other entities, then the profits to be so divided shall be SWEPCO's *pro rata* share of such net profits based on SWEPCO's contribution to the development costs.

15. Subject to the provision of Paragraph 6 of the Merger Conditions (fuel hold harmless), SWEPCO shall continue to purchase, treat, and allocate its fuel costs consistently with the Commission General Order dated November 6, 1997, *In re: Development of Standards Governing the Treatment and Allocation of Fuel Costs by Electric Utility Companies,* including any future amendments to this Order.

16. In the event of the implementation of electric generation open access for Commission-jurisdictional electric utilities, any rules, regulations or orders of general applicability adopted by the Commission regarding generation assets in an open access environment will apply to the company and, to the extent inconsistent with provisions of this Order, will govern. No later than six months prior to the mandated open access date, the company shall file with the Commission any proposed modifications to this Order to address any such inconsistencies.

17. If retail access for SWEPCO-La. is mandated by the Commission, or through action by the Federal Energy Regulatory Commission or federal legislation, then SWEPCO-La. shall have the right to petition the Commission for

> modifications to the terms of this settlement, including the affiliate transaction conditions, that are made necessary by the mandating of retail access and its likely impact on the retail rates at SWEPCO-La. Any such petition must establish the necessity of the proposed modifications and provide appropriate protections to ensure that the benefits of this merger are preserved for SWEPCO-La. regulated customers, including merger savings and the hold harmless provisions set forth herein. The Commission will act upon the petition in accordance with its normal rules and procedures. This paragraph is not intended to limit SWEPCO's right to petition the Commission in the event that electric utility unbundling or retain access is ordered by a state Commission regulating SWEPCO's retail rates, provided that SWEPCO must comply with the requirements set forth above in any such petition.

Q. Do the affiliate transaction conditions accomplish the objectives stated in your Direct Testimony?

A. Yes. The affiliate transaction conditions accomplish numerous important objectives. First, conditions ensure that the LPSC will be able to effectively perform its constitutional mandate to regulate SWEPCO's rates. This is accomplished generally through the comprehensive ratemaking framework that is established by the seventeen affiliate transaction conditions. More specifically, effective LPSC regulation is accomplished through the second affiliate transaction condition, which states that AEP and SWEPCO will provide the Commission access to their books and records, and to the books and records of their subsidiaries and affiliates that reasonably relate to regulatory concerns and that affect SWEPCO's cost of service and/or revenue requirement. The third condition states that AEP will cooperate with any affiliate transaction audits ordered by the LPSC. The eleventh condition timely manner before the SEC or the FERC. Such changes often affect the costs that may be recognized for Louisiana retail ratemaking purposes or otherwise affect jurisdictional ratemaking issues.

Fourth, these affiliate transaction conditions provide a precedent for future mergers subject to the Commission's jurisdiction. This comprehensive set of affiliate transaction conditions can be applied in order to protect ratepayers and to ensure that the Commission maintains its regulatory authority over all costs incurred by the utilities subject its jurisdiction, whether the costs are incurred directly by the utility or indirectly through affiliate transactions.

Q. Were there any significant changes to the affiliate transaction conditions that you recommended in your Direct Testimony?

A. No. There were no significant changes to the conditions outlined in my Direct Testimony, although certain changes have been made to clarify the conditions, specify their applications, and to address potential changes in the regulatory environment in Louisiana and surrounding states. For example, the sixth condition in the Stipulation and Settlement, which corresponds to the original fifth condition, was expanded to detail the information that the Company will be required to file with the Commission in conjunction with asset transfers.

The tenth condition in the Stipulation and Settlement, which corresponds to the original ninth condition, now excludes certain transactions between SWEPCO and CSW Credit, Inc. and AEPSC. These exclusions were appropriate given the intent of the condition to address potential abuses thorough transactions with unregulated affiliates.

The twelfth condition in the Stipulation and Settlement, which corresponds to the original eleventh condition, provides for advance notice to the Louisiana Commission for certain filings the Applicants may make before the FERC or the SEC. Although the notice period has been reduced from that originally recommended, it still provides for sufficient advance notice to the Commission before any such filings are made (30 days) and before they become effective (90 days).

The thirteenth condition in the Stipulation and Settlement, which corresponds to the original twelfth condition, was modified to exclude transactions between SWEPCO and CSW Credit, Inc. (for the financing of receivables) and to exclude emergency purchases. Staff and Applicants also agreed that SWEPCO will maintain records of all affiliate transactions covered by this guideline, separately identifying all transactions that were not competitively bid. This identification will enable the Staff and the Commission to determine whether the costs of such transactions were reasonable and whether they should be recovered for ratemaking purposes in the future.

Q. Were additional affiliate conditions included in the Stipulation and Settlement compared to the original conditions recommended in your Direct Testimony?

A. Yes. Four conditions were added to the original thirteen I recommended in my Direct Testimony. First, the fifth condition in the Stipulation and Settlement specifies that the Company will comply with the LPSC General Order regarding mergers, acquisitions and transfers of ownership and control regarding regulated utilities and their assets.

Second, the fifteenth condition provides that SWEPCO will comply with the Commission's General Order regarding the recovery of fuel costs through the fuel adjustment clause.

Third, the sixteenth condition ensures that the Company will abide by the Commission's rules, orders, and regulations generally applicable to the Commission-jurisdictional electric utilities in the event of the implementation of electric generation open access. The sixteenth condition also requires SWEPCO to petition the Commission for any necessary modifications to these affiliate conditions if there are inconsistencies between the conditions and such Commission rules, orders, and regulations.

Fourth, the seventeenth condition allows SWEPCO to petition the Commission for modifications to the terms of the Stipulation and Settlement, including the affiliate transaction guidelines, in the event that retail access is mandated in Louisiana or at the federal level.

Q. Please summarize your recommendation to the Commission.

A. I recommend that the Commission adopt the proposed Stipulation and Settlement. In addition to the reasons stated by Rick Baudino in his Additional Direct Testimony, the Stipulation and Settlement provides a mechanism to ensure that ratepayers receive the benefit, through timely rate reductions, of actual savings associated with the merger and are shielded from payment of merger-related costs. The Commission also will have in place a method for reviewing SWEPCO's post-merger rates to ensure that they remain just and reasonable and that savings are being flowed through to ratepayers. Further, the Stipulation and Settlement provides a comprehensive framework to protect ratepayers against potential affiliate abuses, which could result in higher costs and rates.

Q. Does this conclude your Additional Direct Testimony?

A. Yes.