

FILE

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Establishment of
4901:1-10-10(B) Minimum Reliability
Performance Standards for
Columbus Southern Power Company
and Ohio Power Company.

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Case 09-756-EL-ESS

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REPLY COMMENTS OF
COLUMBUS SOUTHERN POWER COMPANY
AND OHIO POWER COMPANY CONCERNING THE
APPLICATION TO ESTABLISH MINIMUM RELIABILITY
PERFORMANCE STANDARDS
IN ACCORDANCE WITH O.A.C. 4901:1-10-10(B)

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I. INTRODUCTION

Columbus Southern Power Company (CSP) and Ohio Power Company (OP) (collectively "AEP Ohio" or "Companies") file these Reply Comments as ordered by the Public Utilities Commission of Ohio's (Commission) entry on October 8, 2009, and as called for in Ohio Admin. Code (O.A.C.) Rule 4901:1-10-10(B)(6). AEP Ohio appreciates the opportunity to reply to the comments filed concerning the application filed in this case. After reviewing the comments, AEP Ohio is willing to modify the application filed in this docket consistent with the recommendations offered by the Commission Staff, with a Commission clarification on the rules.

II. BACKGROUND

The Commission ordered electric utilities to file proposed new reliability performance standards for the purpose of the electric utilities' compliance with O.A.C. Rule 4901:1-10-10. This effort represented a movement from a system based on reliability targets to a new system establishing reliability standards. Utilities were given sixty days following the effective date of the

amended chapter to file the proposed standards. The amended chapter became effective on June 29, 2009.

O.A.C. Rule 4901:1-10-10 identifies the service reliability indices and prescribes the process for an electric utility to establish company-specific minimum reliability performance standards. Specifically, O.A.C. Rules 4901:1-10-10(B)(3) and (4) identify the contents of an electric utility's application for approval of reliability performance standards. O.A.C. Rule 4901:1-10-10(B)(5) requires a complete set of work papers to be filed with the application. AEP Ohio filed the application on August 27, 2009. Ohio Consumers' Counsel (OCC) filed comments on November 23, 2009. Commission Staff then filed its comments on December 3, 2009.

III. OHIO CONSUMERS' COUNSEL'S COMMENTS

The OCC raises eight areas of concern with AEP Ohio's application. Those issues range from a lack of understanding how the Companies applied certain aspects of the rule, to an argument on behalf of the Commission Staff concerning the appropriate historical period. As discussed later, the Staff's comments filed after OCC's comments indicate a preference for the historical period offered by AEP Ohio. Ultimately some of OCC's arguments are rendered moot by the Companies' acceptance of the Staff's recommendations. Regardless, each of the arguments is addressed in this response.

First, OCC misunderstands the geographic considerations listed in the application. OCC raises a concern that there is no description how the geographic characteristics affect the reliability standards. However, the inclusion of the data showing the unique geography faced by AEP Ohio is meant to support the presence of a primary driver of the reliability indices -- "tree outages" (as shown on page 20 in the application). The section detailing the wooded areas in the service territories of AEP Ohio provide the background to understand the direct relationship of vegetation to historical experience as shown in the five year (2003–2008) average and the future improvement adjustment factor.

Second, OCC comments on the use of the customer survey in the application. The substance of OCC's issues in this area focuses on an incorrect characterization that a significant percentage of customers are not satisfied with AEP Ohio's performance and on a critique of the adequacy of the survey as incorporated in the application. OCC's concern with the level of customer satisfaction is curious considering the data in Figures 4 and 5 in the application showing 88% (commercial) and 85% (residential) customers are satisfied with the overall experience with AEP Ohio. Likewise, AEP Ohio included Figures 6 and 7 detailing its high ranking, above the national average, in overall satisfaction as compared to a nationwide benchmark of electric utilities. AEP Ohio used those statistics as support for validation of the historical performance indices to point out the appropriateness of using past performance to set future standards. As to the adequacy of the survey itself, the application included samples of the pertinent questions relating to this topic area. To the extent AEP Ohio will need to update the survey instrument under O.A.C. Rule 4901:1-10-(B)(4)(b) it will do so in accordance with the rule.

Third, OCC incorrectly takes issue with the explanation of exclusion of major event days and transmission outages in calculating the historical performance indices. OCC lists a few questions expressing its difficulty in understanding how AEP Ohio reached the listed reliability calculations. It is not clear if OCC is confused by the rule or by AEP Ohio's work papers. The exclusion of major event days is implicit in the IEEE 1366 standard and it, as well as the Commission's exclusion of transmission outages, is a prerequisite to calculating the historical performance indices as described in the rule. The 'number of' and which 'specific days' for each Operating Company that were classified as major events are identified in the associated work papers filed. All rationale and the methodology used were filed with the AEP Ohio's work papers along with the calculations that show results with and without transmission outages.

Fourth, OCC argues that AEP Ohio's application fails to explain and quantify the impact of the different historical outage causes. The Commission Staff has reviewed AEP Ohio's

performance every year under the previous version of chapter 10 of the Ohio Administrative Code. The information was also given to the Commission and OCC, in response to a data request, detailed by outage cause and by company using the new IEEE 1366 exclusion guidelines prior to the deadline for filing initial comments in this case. The purpose of this docket is to set performance standards going forward and not to review every action from the past. The data is in the record for review to the extent necessary. The standards are developed recognizing that history.

Fifth, OCC raises a concern that the use of a three-year average to calculate the baseline for the reliability standards deviates from the Staff guidelines. Clearly Staff does not share OCC's concern. The Staff supported AEP Ohio's decision in its comments stating, "****in the specific case of CSP and OP, Staff agrees with the Companies' application using only the most recent three years of annual performance data." [See Staff Comments at 5.]

Sixth, OCC asserts that AEP Ohio's standard adjustment based on a statistical distribution is flawed and unreasonable. AEP Ohio is confident that the methodology provided in the application is both a reasonable and a viable method to set reliability standards. However, in recognition of setting this first round of standards under the new methodology in the rule AEP Ohio, as explained below, is willing to accept the Staff's suggested method for determining the reliability standard at this time. As such this section of OCC's concerns should be satisfied by the Staff's methodology.

Seventh, OCC asserts that AEP Ohio's application failed to quantify separate adjustments for a number of factors included in the rules including system design and technology. AEP Ohio's application included almost six pages of text detailing the characteristics of and maintenance efforts applied to the system. The application also included a discussion of recent technological advancements. It should be noted that technological advancements have different effects on the service reliability standards. Following Figures 17-20 in AEP Ohio's application is a discussion on the addition of sectionalizing equipment and the negative impact it has on the CAIDI

performance while helping SAIFI performance. AEP Ohio discusses these issues and incorporates their impact into their indices.

Eighth, OCC argues that AEP Ohio's application fails to provide any description of a schedule for completing a grid modernization program. While the Companies believe that grid modernization will have an impact on reliability to the customer, the realization of reliability improvements from the initial gridSMART area will not fully be seen until 2012. Once the initial gridSMART area is complete, AEP Ohio can study the impact grid modernization will have at that time. It is also important to point out that the gridSMART initiative is only in a portion of CSP's territory at this point.

IV. STAFF'S COMMENTS

As stated above, in an effort to move forward and resolve differences in perspectives, AEP Ohio is willing to modify the methodology offered in the application and adopt the methodology offered by the Staff's comments. Instead of applying the 1.5 standard deviation proposed by the Companies, the Staff proposed using the most recent three-year average plus ten percent to determine the level of the reliability standard. Staff applied this methodology to AEP Ohio's numbers and generated the following tables below.

CAIDI	3 Year Average (2006-2008)	10% of 3 Year Average	3 Year Average +10%
CSP	125.45	12.55	138.00
OP	157.41	15.74	173.15

SAIFI	3 Year Average (2006-2008)	10% of 3 Year Average	3 Year Average +10%
CSP	1.55	0.16	1.71
OP	1.25	0.12	1.37

Staff then applied AEP Ohio's methodology to determine the improvement adjustments associated with the enhanced vegetation management program with a minor adjustment. Staff ensured that the Companies' provided methodology was compared to the consistent base year of 2008. Staff also recommended modifying the improvement adjustments to recognize changes in the vegetation enhancement program implemented by the Companies as a result of the discussions Staff had with the Companies. The Staff's recommendations result in the following adjustments:

CAIDI ADJUSTMENT	2009	2010	2011
CSP	0.58	1.81	2.64
OP	0.86	2.75	3.93

SAIFI ADJUSTMENT	2009	2010	2011
CSP	0.05	0.10	0.15
OP	0.02	0.07	0.11

The Companies are confident that the methodology provided in the application is both a reasonable and just methodology on which to base a reliability standard under O.A.C. Rule 4901:1-10-10. However, in the interest of avoiding delay and settling this first round of standards under the new rule, AEP Ohio is willing to try the Staff's suggested method. If the methodology fails to adequately capture the realities of service operations the Companies reserve the right to file revised standards under the process already outlined in O.A.C. Rule 4901:1-10-10(B)(7). Acceptance of Staff's methodology should not be used against the Companies if they choose to propose a traditional standard deviation method in the future.

The other factor that must be clear in any approval of this methodology is what appears to be an obvious clarification of the new Commission rules. Acceptance of Staff's methodology is

being taken with deference to the Staff's preferred method, but the risk of noncompliance is borne by the Companies in the form of an administrative code rule declaring a failure to perform as a code violation. O.A.C. Rule 4901:1-10-10(E) states, "[f]ailure to meet a performance standard for two consecutive years shall constitute a violation for this rule." It seems obvious to the Companies that a failure to meet the CAIDI standard for the same company two years in a row OR a company's failure to meet the SAIFI standard two years in a row is what the rule contemplates. The rule does not dictate the finding of a violation if a company were to meet the SAIFI standard and fail to meet the CAIDI standard one year and then the next year fail to meet SAIFI standard but meet the CAIDI standard. In other words the two years in a row requirement relates to the same standard, not a mixture of the independent standards.

AEP Ohio is willing to accept Staff's proposed changes as long as the Commission clarifies the application of this rule consistent with the Companies' view. The Companies' reading is the appropriate reading of the rule and provides the necessary level of security to accept Staff's methodology as the industry moves from targets to reliability standards. That being said, the Companies' tables listing the reliability standards from the initial application should be updated to include the numbers provided by staff as such:

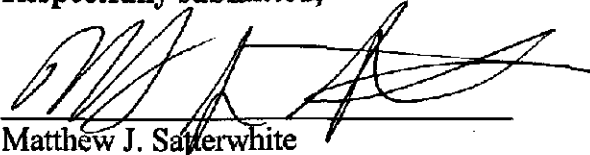
CAIDI ADJUSTMENT	2009	2010	2011
CSP	137.42	136.19	135.36
OP	172.29	170.40	169.22

SAIFI ADJUSTMENT	2009	2010	2011
CSP	1.66	1.61	1.56
OP	1.35	1.30	1.26

V. CONCLUSION

AEP Ohio believes that acceptance of the recommendations sponsored by the Commission's Staff should result in a Commission finding that the application, as amended by this filing, is just and reasonable. As such, Commission approval of AEP Ohio's acceptance of Staff's recommendations alleviates the need for a hearing under O.A.C. Rule 4901:1-10-10(B)(6)(e). AEP Ohio respectfully requests a Commission finding in accordance with these reply comments.

Respectfully submitted,

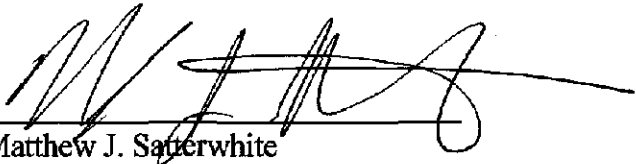


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CERTIFICATE OF SERVICE

I certify that Columbus Southern Power Company's and Ohio Power Company's Reply Comments was served by First-Class U.S. Mail upon counsel identified below for all parties of record this 23rd day of December, 2009.


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