

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Commission's |) | |
| Review of Fuel Adjustment Clause |) | Case No 10-479-EL-UNC |
| Guidelines |) | |

**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S
INITIAL COMMENTS**

By Entry dated June 23, 2010, the Commission invited comments regarding Staff's proposed guidelines to provide uniform standards and specifications for the FAC audits. The Commission set July 14, 2010 and July 28, 2010 as the filing dates for initial and reply comments, respectively. In accordance with this schedule, Columbus Southern Power Company and Ohio Power Company (collectively AEP Ohio) file the following initial comments.

GENERAL COMMENTS

While AEP Ohio agrees with the overall goal of having a set of guidelines for a fuel adjustment clause (FAC) auditor, such guidelines need to add clarity and certainty to the process rather than uncertainty and ambiguity. In several areas, the proposed guidelines are vague and should be clarified. The Companies would propose to include language that would focus the audit on more specific areas and more specifically during the audit period in order to provide clearer guidance for the auditor. This would also reduce the "judgment" calls that the auditor might have to make while conducting the audit. It is not the intent of AEP Ohio to limit the

auditor's access to the necessary information to complete the task, but rather have the process be as efficient and predictable as possible for all parties involved

As discussed further in connection with various provisions below, another shortfall of the proposed guidelines is the inclusion of several specific fuel procurement activities or features of fuel procurement agreements as part of an audit checklist when those particular items are not particularly indicative of whether a procurement decision or activity is prudent. In some cases, it is appropriate to modify the wording to clarify the importance of an item being included on such a checklist. In other cases, it is more appropriate to simply remove the item from the checklist

As a matter of terminology generally used in the FAC guidelines, AEP Ohio proposes to replace the word "procedures" throughout the guidelines with the phrase "policies and applicable procedures." There are not always procedures that apply or exist, whereas there typically are policies that apply. Also, AEP Ohio suggests using "electric utilities" instead of "Company" throughout the guidelines. This is needed for clarity because it appears that in some cases, the FAC guideline language currently uses the term "Company" to reference a vendor or coal producer. For efficiency, not all of those instances are set forth in AEP Ohio's proposed language below but rather are included below only when AEP Ohio is suggesting more substantive changes for particular passages (nevertheless, AEP Ohio recommends changing the term in each instance where the language intends to reference an electric utility)

The comments set forth below track the headings within Staff's proposed guidelines and are organized in the same order as the sections within the proposed guidelines

SPECIFIC COMMENTS

I. Introduction

AEP Ohio proposes to include language in the Introduction section that would specify the audit being conducted is for the "audit period," in order to appropriately focus the scope of the audit and supporting activities. The Companies also propose some general edits below in an attempt to improve the clarity of the language.

Recommended Text:

Ohio electric utilities are required to provide consumers a standard service offer of electric service. The electric utility can provide this service through either a market rate offer (MRO) or an electric security plan (ESP). An MRO or ESP may recover, among other things, the costs of fuel and purchased power, provided that the costs are prudently incurred. The Public Utilities Commission of Ohio (Commission) must ensure that the costs were prudently incurred ~~before the Commission can approve~~ prior to approving recovery of costs under a fuel adjustment clause (FAC). In order to properly investigate the costs incurred during the audit period, the Commission may conduct or direct that an audit be performed for that period. The guidelines set out below are intended to provide guidance throughout the audit process. However, appropriate discretion on the part of the auditor will be essential in order to conduct an audit in conformance with specific requirements set forth by different standard service offerings.

II. Audit Standards

A. Management/Performance Audit

(1) Purpose

While the auditor should pursue a comprehensive audit and demonstrate significant initiative, the use of the term “imagination” is overly subjective and limitless. “Professional judgment” is a common and appropriate term that should instead be used in auditing guidelines. The second sentence of this section could be interpreted to inappropriately suggest that the auditor has relatively unconstrained discretion to expand the scope of the audit. To be more effective, the guidelines should provide a uniform framework for the management/performance and follow-up audits, and should be expanded only to address particular areas of concern identified by the Commission. The auditor should use his professional judgment and experience to tailor the scope of the audit to the particular company and its service offers. The guidelines should provide for a thorough review of all applicable issues, and not leave substantial areas of discretionary reviews to be defined by a particular auditor.

Recommended Language Changes:

The purpose of the Management/ Performance Audit Standards for the Fuel Adjustment Clause is to provide uniform standards and specifications as guidelines for conducting a FAC management/performance audit. The FAC management/performance audit standard does not exclude ~~program is only a guide and should not be used to the exclusion of the auditor's initiative, imagination, professional judgment, and thoroughness in conducting the audit~~.

(2) Objectives

The proposed objectives defined for the audit focus mainly on price, and do not acknowledge that there may be other objectives, including securing reliable supplies that can be delivered in a timely manner, and to effectively manage the

risks associated with the fuel markets. Two new sub-listings should be added under

II. A. (2)

Recommended Additional Language:

(f) securing reliable supplies that can be delivered in a timely manner.

(g) managing the risks associated with the fuel markets.

(3) Audit Standards

AEP Ohio is sensitive to protecting the confidentiality of company records, data, and contracts. Language should be added to ensure appropriate treatment and protection of: (i) any Personally Identifiable Information (PII) that is part of customer records that could potentially be used during the Financial Audit (to verify accurate billing of FAC rates); and (ii) other proprietary and confidential information. AEP Ohio recommends that the standard language utilized in Commission entries appointing an auditor be incorporated into the guidelines to ensure that the auditor follows a uniform practice in handling confidential information. This could either be added to Section 3, Audit Standards, or be used to create a new section labeled "Confidential Information"

Recommended Additional Language:

The auditor shall be subject to the Commission's statutory duty under Section 4901.16, Revised Code. Upon request of the auditor or Staff, the electric utility shall provide any and all documents and information requested. The electric utility may conspicuously mark such documents or information "confidential." In no event shall the electric utility refuse or delay providing such information or documents to the auditor or Staff. The following process shall apply to the release of any document or information that the electric utility marks as "confidential": Staff or the auditor shall not publicly disclose any document marked "confidential," except upon three days' prior written notice of intent to disclose served upon counsel for the electric utility. Three days after such notice, Staff or the auditor may disclose or otherwise make use of such documents or information for any lawful purpose, unless the electric utility moves the Commission for a protective order pertaining to such information within the three-day notice period. The three-day notice period

shall be computed according to Rule 4901-1-07, Ohio Administrative Code. Service shall be complete upon mailing or delivery in person.

(4) Scope of the FAC management/performance audit

AEP Ohio submits that only those prior audit recommendations adopted through Commission Order are appropriate for follow-up in the following audit period. Also, some adopted recommendations may end up being appropriately addressed rather than implemented, so additional clarifying language is proposed below in that regard. AEP Ohio also suggests additional language to clarify that the Commission can always specify additional items to be addressed in the follow-up audit.

Recommended Language Changes:

(b) Follow-up performance audit

The auditor shall conduct a follow-up performance audit to determine whether the recommendations developed in previous management/ performance audits and adopted by the Commission ~~those determined to be reasonable in a FAC hearing~~ have been effectively implemented or addressed by the company. Other matters identified by Commission order may also be addressed.

(5) Minimum review requirements

AEP Ohio submits that the scope of an auditor's review should be focused on the audit period and suggests additional language below to clarify that (the existing language only does so for some of the items listed). Further, because some of the items listed in this section are not matters over which the Commission has jurisdiction to modify or otherwise directly address (*e g* , Clean Air Act compliance, wholesale power transactions, system dispatch policies), and because the term "review" might imply authority to modify, AEP Ohio suggests the term "consider"

is more appropriate for such matters. As a related matter, AEP Ohio proposes language changes to clarify the ostensible purpose of the items listed.

Recommended Language Changes:

Relating to the audit period, the auditor shall consider the following:

- (a) Fuel procurement policies and practices.
- (b) The company's long-term fuel supply contracts and amendments to the contracts in effect. ~~during the audit year.~~
- (c) Arrangements with fuel suppliers owned or controlled, in whole or in part, by the company.
- (d) Emissions allowance transactions under the Environmental
~~compliance with Title IV of the Clean Air Act Amendments of 1990.~~
- (e) ~~The Companies'~~ Applicable policies for power purchases, interchanges, and sales for resale

(6) Audit procedures for fuel procurement -SUBPARTS (a) THROUGH (c)

Consistent with its comments above regarding electric utility procedures, AEP Ohio suggests modifying the language in subpart (a).

AEP Ohio also submits that the reference in subpart (b) to reliable electric service is beyond the scope of an FAC audit. To the extent that phrase was intended to incorporate non-price considerations involved with fuel procurement, AEP Ohio offers alternative clarification language

AEP Ohio believes that subpart (c) should be more clearly written with focused language to better define the scope of the audit. AEP Ohio offers language to achieve the following matters pertinent to an audit: (i) Determine whether the terms of any long-term contract contain a price escalation provision that was triggered during the audit period; (ii) Review any contract amendments that implement a price escalation provision for conformance to the contract terms; (iii) Identify any delivery deficiencies that occurred under a long-term contract during

the audit period and determine if appropriate remedies were pursued; (iv)

Determine the reasonableness of any spot purchasing activities triggered due to delivery deficiencies under a long-term supply agreement; and (v) review the reasonableness of all fuel purchasing activities performed during the audit period by the company for any jointly-owned generating units and how those costs are allocated to the other owners.

Recommended Language Changes:

- (a) A review of the company's electric utility's fuel procurement policies, applicable procedures, and practices.
- (b) Assess the company's electric utility's organizational ability to procure fuel and provide reliable electric service at the lowest reasonable overall cost, secure reliable supplies that can be delivered in a timely manner, and manage the risks associated with the fuel markets.
- (c) Analyze the fuel purchasing department's formal procedures for purchasing fuel, contract negotiation, and fuel contract administration as follows:
 - (i) Determine whether the terms of each fuel supply contract contain a price escalation provision that was triggered during the audit period
 - (ii) Review any contract amendments that ~~contain~~ implement a price escalation provision for conformance to the contract terms and review correspondence on the amendment negotiations.
 - (iii) Evaluate the any delivery performance of the fuel supplier for each deficiencies that occurred under a long-term fuel supply contract during the audit period and determine if appropriate remedies were pursued.
 - (iv) Determine ~~whether the company must buy~~ the reasonableness of any spot coal purchasing activities triggered due to delivery deficiencies under a long-term supply agreement at a higher price than that contained in a long-term fuel supply contract if the fuel supplier does not fulfill its obligations.
 - (v) ~~If the company jointly owns a generating plant, determine which company has responsibility for fuel procurement and how the fuel procurement policies are determined between the owners.~~ Review the reasonableness of all fuel purchasing activities performed during the audit period by the company for any jointly-owned generating units and how those costs are allocated to the other owners.

(6) Audit procedures for fuel procurement -SUBPART (d)

This subpart suggests that there is some definitive number or formulaic calculation that should be memorialized in “policies” of the company regarding how much self-supply is appropriate. Otherwise, it is not clear what the object of this subpart really is. Yet, the guidelines do not provide any objective standards to perform the requested evaluation that could be followed by the electric utility. AEP Ohio suggests more neutral language in items (i) and (ii), as reflected below.

Items (iii) through (vii) appear to imply that an electric utility must examine purchasing coal lands, acquiring affiliate mining operations or similar activities. AEP Ohio was previously involved with substantial affiliate mining and regulatory issues were often raised relating to those operations, some of which involved protracted FAC litigation. While there may be opportunities where AEP Ohio’s management decides to pursue such matters to pursue benefits that outweigh the risks, the FAC guidelines should not “hard wire” management’s pursuit of such ventures. The Introduction of the FAC guidelines appropriately indicates that fuel and purchased power costs must be reviewed to ensure that the costs are prudently incurred, yet this subpart suggests that an audit go well beyond that query. The additional criteria suggest that an electric utility must do something beyond prudently purchasing a reliable fuel supply.

AEP Ohio suggests that it is inappropriate to do so, where an FAC is established to pass through prudently incurred fuel purchase costs and the governing statute, R.C. 4928.143(B)(2)(a) allows for automatic recovery of the costs of fuel used to generate electricity supplied under the ESP. There is no legal requirement that an electric utility undertake acquisition, ownership or development

of mining operations. The proposed guidelines attempt to go even further to probe into the utility's financing, legal and other internal matters relating to such discretionary business decisions. AEP Ohio submits that items (iii) through (vii) are inappropriate for inclusion in the FAC guidelines.

Recommended Language Changes:

- (d) Review management of the company to evaluate the following:
- (i) Whether management has set ~~limits~~ targets for long-term or short-term fuel supply contracts in terms of years or price.
 - (ii) Determine if the company has a policy that ~~limits~~ specifies the types of transactions it would use to secure long-term fuel supply contracts.
 - ~~(iii) If the company secures long-term fuel supply contracts by purchasing coal lands, turn-key operations, purchasing a coal company, or some other means.~~
 - ~~(iv) Establish whether restrictions are placed upon the amount of capital which the company considers appropriate to put upfront for operations listed in Section (iii) above.~~
 - ~~(v) If legal issues relative to the purchase of such operations listed above in Section (iii), have been explored.~~
 - ~~(vi) Verify whether turn-key operations have been explored and if so, on what basis the company proceeded.~~
 - ~~(vii) Evaluate whether limits result from cash flow problems, capital availability problems, or other such factors.~~
 - ~~(viii) (iii) If policies have changed over time due to economic conditions.~~
 - ~~(ix) (iv) Verify that economic efficiency was the determinative criteria for purchasing fuel supplies~~
 - ~~(x) (v) Identify whether there are any restraints on operational efficiency imposed by environmental regulation, legislation, or operating requirement.~~

(6) Audit procedures for fuel procurement -SUBPART (e)

Subpart (e) as proposed inappropriately attempts to promulgate uniformity concerning subjective and varying matters that do not lend themselves to uniform rules. For example, what a fuel purchasing agent "believes" is subjective and not pertinent to an electric utility's fuel procurement policies, applicable procedures or practices; nor are those matters pertinent to the audit. Similarly, the proposed

language attempting to audit how an agent begins a negotiation goes beyond micromanagement and is not appropriate.

While the item (vi) guidelines requirement of including health, safety, and environmental performance metrics as deals are evaluated is a worthy goal, there are currently no applicable Commission Orders that provide for recovery of incrementally higher costs resulting from the exclusion of a lower cost proposal as a result of lesser health, safety, and/or environmental performance. Additionally, there is not, nor should there be consideration of, any regulation that anticipates that electric utilities (in addition to federal, state, and local government officials) would provide their own site checks or inspections to regulate compliance with applicable laws and regulations. AEP Ohio does believe that it is reasonable that electric utilities have prospective coal suppliers contractually stipulate to their adherence with applicable laws and regulations.

AEP Ohio offers language changes below that are designed to make subpart (e) result in more objective auditing and to provide auditors with neutral criteria against which their evaluations can be conducted.

Recommended Language Changes:

- (e) Review with the fuel purchasing agent for the company:
 - (i) ~~What the agent believes to be the company's primary criteria for coal purchasing. The supervision provided to the agent.~~
 - (ii) ~~What the agent considers to be the most important factors in dealing with coal companies. Whether the agent follows the electric utility's policies for new contracts, renewals, or amendments entered into during the audit period.~~
 - (iii) ~~How the agent begins negotiations for a long-term fuel supply contract.~~
 - (iv) What areas of responsibility the agent has and what responsibilities are supervised.

- (iv) How the agent assures that the fuel procurement policy is followed appropriately established criteria are met for new contracts, renewals, or amendments entered into during the audit period.
- (vi) ~~What checks are run and how the performance and overall contractual provisions are required of prospective coal suppliers to stipulate their compliance with applicable lawful standards, such as OSHA and water quality standards, of coal companies with which the company deals are evaluated.~~
- (vii) How the agent assures that offers of coal are reasonably priced and that the company is dealing with contract counterparties (current and prospective) in a professional manner, an appropriate business posture
- ~~(viii) Whether the agent often deals with the same fuel supply sources.~~
- ~~(ix) (vii) How the agent obtains current information on coal and the coal industry~~
- ~~(x) What ongoing educational programs have been established.~~

(7) Audit procedures for station visitation

Consistent with its prior comments, AEP Ohio suggests clarifying the references to “procedures” in subparts (a), (d), (e) and (f) with the proposed language changes outlined below. AEP Ohio also suggests moving some of the proposed items into a more logical order within subparts (a) and (b).

Further, in subpart (c), AEP Ohio proposes clarifying language regarding the function of the laboratory

Further, in subpart (e), AEP Ohio proposes clarifying language regarding company’s ledger (versus books) and corrects a typographical reference

Recommended Language Changes:

- (a) Obtain a description of the company's coal receiving ~~procedures~~ policies, practices and controls for shortages, overages, or other discrepancies, and do the following:
- (vii) Obtain copies of receiving data for one month during the audit period to compare with purchasing and accounting records.

* * *

- (b) Obtain a description of the company's coal sampling procedures, and do

the following:

- (i) Determine the frequency of coal sampling
- (ii) Determine how a representative coal sample is selected for each fuel supplier.
- ~~(ii)~~ (iii) Determine how the coal samples are identified
- ~~(iii)~~ (iv) Determine what control is exercised over forwarding coal samples to the laboratory.
- ~~(iv)~~ Determine how a representative coal sample is selected for each fuel supplier.
- ~~(v)~~ Obtain copies of receiving data for one month during the FAC audit period to compare with purchasing and accounting records.

* * *

- (c) Obtain a description of the electric utility's company's laboratory procedures for testing coal samples, and do the following:

* * *

- (v) Obtain copies of laboratory sampling analyses reports for one-month during the FAC audit period to compare with purchasing and accounting records
- (vi) Determine how the electric utility company controls and assures that ~~all~~ samples are received and actually tested.

* * *

- (d) Obtain a description of the electric utility's company's policy, practices and applicable procedure for handling coal from the stockpile to the firebox or boiler, and do the following:

* * *

- (e) Obtain a description of the electric utility's company's policy, practices and applicable procedure for taking physical inventories of coal and fuel oil, and do the following:

* * *

- (iv) Review the working papers on physical inventories and trace an adjustment to the general books ledger, including fuel stock and consumption records

* * *

- (vi) Determine whether the electric utility company complies with the commission's approved procedures ~~from~~ for physical inventory adjustments.

- (f) Discuss with the station manager ~~all~~ applicable procedure descriptions.

(8) Audit procedures for environmental compliance

For consistency, AEP Ohio recommends the same language in the heading of division (8) as earlier as it relates to the emissions allowance transactions under the Clean Air Act

Regarding subpart (d) the language is unclear, especially the phrase “economic efficiency” and AEP Ohio offers some more direct language to capture the concept.

AEP Ohio also recommends deleting the last phrase in subpart (e), as it is burdensome and inefficient for an auditor to be required to evaluate all transactions not entered into. Transactions entered into and costs incurred are supposed to be reviewed for prudence. Proving the universal negative of why a utility did not enter into other transactions is unreasonable and unfair

Recommended Language Changes:

- (8) Audit procedures for environmental compliance with the emissions allowance transactions under the Clean Air Act Amendments of 1990.

* * *

(d) Identify any environmental standards or regulations that significantly affect the electric utility’s fuel procurement and utilization practices, and evaluate the economic impact of those standards or regulations ~~economic efficiency of the company’s fuel utilization.~~

(e) Review all allowance transactions in which the company participated during the audit period, ~~as well as foregone transactions.~~

(9) Audit procedures for purchased power and sales for resale policy evaluation.

Regarding subpart (b), the language “economic efficiency” is subjective and ambiguous; therefore, it should be removed. Similarly, in subpart (c), it should be noted that contractual commitments make it infeasible to “endeavor to purchase

power or generate energy at a fuel cost less than higher priced power under a contract or interconnection agreement”

Recommended Language Changes:

(9) Audit procedures for purchased power and sales for resale policy evaluation
* * *

(b) ~~Review the company's procedures for assuring that economic efficiency is the determinative~~ electric utility's policies, practice and applicable procedures or other criteria for power purchases, sales for resale, and fuel utilization

(c) ~~Evaluate the company's endeavors~~ electric utility's policies, practices and applicable procedures, when considered in light of existing contractual commitments, to purchase power or generate energy at a fuel cost significantly less than higher priced power under a contract or interconnection agreement.

(10) Audit report

AEP Ohio submits that an additional subpart should be added to require the auditor to discuss discrepancies with the affected electric utility prior to issuing the report. This is similar language to that included in the proposed guidelines for the financial audit report.

Recommended Language Changes:

(j) Summarize all discrepancies and auditor suggestions resulting from the Management/Performance audit and discuss them with appropriate electric utility management personnel prior to the report's issuance.

B. Financial Audit

(1) Purpose

While the auditor should pursue a comprehensive audit and demonstrate significant initiative, the use of the term “imagination” is overly subjective and limitless. “Professional judgment” is a common and appropriate term that should instead be used in auditing guidelines. The second sentence of this section could be interpreted to inappropriately suggest that the auditor has relatively unconstrained

discretion to expand the scope of the audit. To be more effective, the guidelines should provide a uniform framework for the management/performance and follow-up audits, and should be expanded only to address particular areas of concern identified by the Commission. The auditor should use his professional judgment and experience to tailor the scope of the audit to the particular company and its service offers. The guidelines should provide for a thorough review of all applicable issues, and not leave substantial areas of discretionary reviews to be defined by a particular auditor.

Recommended Language Changes:

The purpose of the Financial Audit Standards for the FAC is to provide uniform standards and specifications as guidelines for conducting a FAC financial audit. The FAC financial audit standard does not exclude is only a guide and should not be used to the exclusion of the auditor's initiative, imagination, professional judgment, and thoroughness in conducting the audit.

(2) Objectives

Consistent with AEP Ohio's comments discussed above, the "procedures" language in subpart (a) should be modified, as set forth below.

In subpart (a)(iv), AEP Ohio submits that the rate calculation must be in compliance with an applicable Commission order, not the Commission's Audit Guidelines.

Recommended Text:

- (a) Determine that the ~~company~~ electric utility has policies and/or procedures in place and that are being followed regarding the following activities:
 - (i) Processing of fuel receipt and consumption transactions.
 - (ii) Processing of energy purchase and sale transactions,
 - (iii) Processing of emission allowance purchases, swaps, and sales.

- (iv) Accurately calculating the FAC rate, including compliance with the applicable Commission order. ~~financial audit~~ guidelines.

(3) Audit Standards

AEP Ohio is sensitive to protecting the confidentiality of company records, data, and contracts. Language should be added to ensure appropriate treatment and protection of: (i) any Personally Identifiable Information (PII) that is part of customer records that could potentially be used during the Financial Audit (to verify accurate billing of FAC rates); and (ii) other proprietary and confidential information. AEP Ohio recommends that the standard language utilized in Commission entries appointing an auditor be incorporated into the guidelines to ensure that the auditor follows a uniform practice in handling confidential information. This could either be added to Section 3, Audit Standards, or be used to create a new section labeled "Confidential Information"

Recommended Additional Language:

The auditor shall be subject to the Commission's statutory duty under Section 4901.16, Revised Code. Upon request of the auditor or Staff, the electric utility shall provide any and all documents and information requested. The electric utility may conspicuously mark such documents or information "confidential." In no event shall the electric utility refuse or delay providing such information or documents to the auditor or Staff. The following process shall apply to the release of any document or information that the electric utility marks as "confidential": Staff or the auditor shall not publicly disclose any document marked "confidential," except upon three days' prior written notice of intent to disclose served upon counsel for the electric utility. Three days after such notice, Staff or the auditor may disclose or otherwise make use of such documents or information for any lawful purpose, unless the electric utility moves the Commission for a protective order pertaining to such information within the three-day notice period. The three-day notice period shall be computed according to Rule 4901-1-07, Ohio Administrative Code. Service shall be complete upon mailing or delivery in person.

(5) Minimum review requirements

AEP Ohio recommends, in subpart (g), that the rate calculation must be in compliance with an applicable Commission order, not the Commission's Audit Guidelines. Additional self-explanatory language suggestions are set forth below.

Recommended Additional Language:

(e) Recording ~~purchases~~ purchased power and sales for resale ~~interchanges~~

* * *

(g) Calculating the FAC rate, including an evaluation of the ~~company's~~ electric utility's compliance with applicable Commission orders, ~~the Commission's audit guidelines~~, and their application to customer bills

(6) Audit procedures for fuel procurement

AEP Ohio recommends, consistent with its prior comments, to modify the "procedure" reference in subpart (a). AEP Ohio also offers clarifying language regarding subparts (c), (g) and (h). Under subpart (b), AEP Ohio also notes that the numbering for (i), (ii) and (iii) is mislabeled

Recommended Additional Language:

(a) Review the ~~company's~~ electric utility's fuel procurement policies and applicable procedures ~~manual and written instructions~~ for purchasing fuel and determine whether the policies and/or procedures are being followed.

* * *

(c) Review the quality specifications in each coal contract and determine whether the ~~company's~~ electric utility's policies reflect adjustments for calorific value when the weighted average calorific value of fuel received differs from that stated in the contract.

* * *

(g) If the company jointly owns a generating plant, determine whether fuel accountability transfers among companies are properly recorded.

(h) Determine that any deferred fuel amounts comply with commission ordered treatment.

(7) Audit procedures for activities in the emission allowance market

AEP Ohio recommends clarifying language to subpart (b).

Recommended Additional Language:

(b) Determine whether modifications to additions to and removal from (consumption/sales) the allowance inventory were correctly computed for a sample period.

(8) Audit procedures for processing coal orders

AEP Ohio recommends clarifying language to subparts (b)(iii) and (c)(iv) and (f)

AEP Ohio also recommends moving (8)(l) to division (11)(i) as reflected below.

Recommended Additional Language:

(b) Obtain purchase orders for one month's fuel procurement during the FAC audit period and complete the following:

* * *

(iii) ~~Compare~~ If applicable, compare the purchase orders to approved purchased requisitions.

(c) Obtain cash vouchers for one month during the FAC audit period and complete the following:

* * *

(iv) Trace adjustments for ~~British thermal units~~ all applicable quality parameters from the laboratory to the adjustment's application to payment invoices.

* * *

(f) ~~Obtain~~ For coal transported by barge, obtain two cash vouchers invoices each for barging the coal unloading unloaded during the FAC audit period, compare the tonnage to the unloading reports, and trace the terms and rates of the invoices cash vouchers to the contract's purchase order/support, and to the fuel ledger.

(g) Obtain a description of the company's procedures for preparing monthly fuel analysis reports

(h) Test such procedures by tracing adjustments from the fuel analysis reports to the payment invoices.

* * *

(k) Correlate coal orders with contracts to validate consistency.

~~(l) Summarize all discrepancies and suggestions resulting from the FAC audit and discuss them with officials of the company.~~

(9) Audit procedures for purchased power

AEP Ohio recommends clarifying language set forth below.

Recommended Additional Language:

(a) Obtain a description of the procedures followed by the electric utility system dispatcher in purchasing power and determine:

* * *

(c) Verify a sample of purchased power transactions to related invoice, paid cash voucher, or cash receipts.

(10) Audit procedures for reviewing the FAC rate

Consistent with its comments above, AEP Ohio recommends clarifying language for subparts (a), (d) and (f), as set forth below.

Recommended Additional Language:

(a) ~~Obtain for~~ For the FAC audit period, obtain copies of all monthly, semiannual, and annual reports filed with the Commission

* * *

(d) Determine whether the electric utility's ~~company's~~ calculations of the FAC rates comply with applicable Commission orders ~~these guidelines~~.

* * *

(f) Determine the method for calculating the average of FAC cost ~~of fuel~~ consumed.

(11) Audit report

AEP Ohio recommends clarifying language in the prefatory language

Further, AEP Ohio believes the text moved from (8)(l) to (11)(g) should require the auditor to address discrepancies/suggestions identified during the Financial audit

Recommended Additional Language:

The auditor shall prepare a financial audit report to be filed with the Commission that includes the following:

* * *

(i) Summarize all discrepancies and auditor suggestions resulting from the Financial audit and discuss them with appropriate company management prior to

report issuance.

CONCLUSION

AEP Ohio thanks the Commission for the opportunity to file comments on the proposed FAC guidelines and reserves the right to submit reply comments.

Respectfully Submitted,

/s/ Steven T. Nourse

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CERTIFICATE OF SERVICE

I hereby certify that a copy Columbus Southern Power Company's and Ohio Power Company's Initial Comments was served by electronically upon the individuals listed below this 14th day of July, 2010.

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Summary: Comments CSP and OPC Initial Comments re Case 10-479-EL-UNC electronically filed by Mr. Steven T Nourse on behalf of American Electric Power Service Corporation