BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company to Update Each Company's Enhanced Service Reliability Rider.	)))))	Case No. 10-163-EL-RDR

FINDING AND ORDER

The Commission finds:

On March 18, 2009, the Commission issued its opinion and order in Columbus Southern Power Company's (CSP) and Ohio Power Company's (OP) (jointly, AEP-Ohio or the Companies) electric security plan (ESP) cases (ESP Order).[1] By entries on rehearing issued July 23, 2009 (First ESP EOR), and November 4, 2009 (Second ESP EOR), the Commission affirmed and clarified certain issues raised in AEP-Ohio's ESP Order. As ultimately adopted by the Commission, AEP-Ohio's ESP permits the Companies to recover the cost of the enhanced vegetation initiative via the enhanced service reliability plan (ESRP) rider.[2]

On February 11, 2010, AEP-Ohio filed this application to update its ESRP riders. AEP-Ohio states that in the ESP cases the Commission approved its incremental spending plan for $31.5 million in 2009, $34.8 million in 2010, and $38.1 million in 2011, subject to annual reconciliation based on the Companies' prudently incurred costs.[3] AEP-Ohio states that it has worked with Staff to develop its enhanced vegetation management initiative plan and believes that the incremental costs should be included in the ESRP rider. Based on its discussions with Staff, AEP-Ohio believes that: (a) After a five-year transition period to facilitate end-to-end clearing of all company circuits, AEP-Ohio will implement a four-year full cycle vegetation program; (b) AEP-Ohio and Staff have developed an understanding of the schedule for end-to-end clearing of circuits during the five-year transition period, prioritized, in part, based on breaker zone circuits already cleared under the Companies' existing program. The application sets forth an annual clearing schedule; and (c) AEP-Ohio and Staff have agreed that the Companies should base their calculation of baseline spending for vegetation on the years 2005-2008, equal to approximately $23 million, with an additional measure of baseline spending to total $24.2 million for purposes of determining incremental vegetation costs to be recovered in the ESRP rider.

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1 *In re AEP-Ohio ESP cases,* Case Nos. 08-917-EL-SSO and 08-918-EL-SSO, Opinion and Order (March 18, 2009).

2 ESP Order at 30-34; First ESP EOR at 15-18.

3 *In re AEP-Ohio ESP case,* Order at 33-34 (March 18, 2009); Entry on Rehearing at 17-18 (July 23, 2009).

In its application, AEP-Ohio proposes that for 2009, CSP's ESPR rider be established at 3.34395 percent and OP's ESRP rider be established at 5.59907 percent of each company's distribution charges. In support of the proposed ESPR rider rates, the Companies filed schedules for CSP and OP, which set forth 2009 actual vegetation spending, carrying costs, and incremental investments for its vegetation plan. The Companies request that the ESRP rider rates commence with the first billing cycle in July 2010, to coincide with the effective date of the fuel adjustment clause (FAC), as any increase associated with the ESRP rider and FAC rates are limited by the rate caps established in the ESP cases.[4]

By entry issued April 8, 2010, a procedural schedule in this matter and two other AEP-Ohio rider proceedings was established. In the April 8, 2010 entry, interested persons were directed to file comments to this and/or the other two rider applications by April 30, 2010. Reply comments were due by May 10, 2010. The Office of the Ohio Consumers' Counsel (OCC) and the Industrial Energy Users-Ohio (IEU-Ohio) filed motions to intervene in this case. The April 8, 2010 entry, granted OCC's and IEU-Ohio's motions to intervene in this proceeding. Comments were filed by IEU-Ohio, OCC and Staff. Reply comments were filed by the Companies, OCC and IEU-Ohio.

On July 21, 2010, AEP-Ohio filed a letter, and updated exhibits to the ESRP application, agreeing with certain recommendations made by Staff. AEP-Ohio requests that the Commission adopt its updated position for the new ESRP rider rates to be effective with the first billing cycle in September 2010. (AEP-Ohio Letter.)

On July 30, 2010, Staff filed a letter which states that for purposes of reaching a reasonable outcome in this matter, the Staff agrees with the resolutions proposed by AEP-Ohio as provided in its July 21, 2010 letter. Further, Staff states that it has no further issues in this case which require an adjudicatory hearing. (Staff Letter.)

On August 9, 2010, OCC filed a letter in response to AEP-Ohio Letter acquiescing to certain issues and continuing to object to the method and calculation of the carrying cost charge (Second OCC Reply).

4 On a total bill basis, rate increases are capped at seven percent for CSP and eight percent for OP in 2009, six percent for CSP and seven percent for OP in 2010, and six percent for CSP and eight percent for OP in 2011. ESP Order at 22; First ESP EOR at 8-9.

A. IEU-Ohio General Comments to the AEP-Ohio Rider Cases[5]

In its comments to this case, as well as two other AEP-Ohio rider cases, IEU-Ohio argues that the Commission lacks subject matter jurisdiction. IEU-Ohio asserts that the Commission lost jurisdiction over AEP-Ohio's ESP, and all proceedings stemming from the ESP including this rider proceeding, when the Commission failed to issue an order within 150 days of AEP-Ohio filing its ESP application. IEU-Ohio also argues that AEP-Ohio must accept the modified ESP and withdraw its appeal of the modified ESP. (IEU-Ohio Comments at 6-11; IEU-Ohio Reply at 2-3.)

IEU-Ohio has raised these issues in several Commission proceedings and in each case the Commission has rejected both arguments.[6] IEU-Ohio has raised no new arguments in this proceeding that the Commission has not previously considered in other cases and rejected. Accordingly, for the same reasons as stated in previous cases where the issues have been raised, the Commission again rejects IEU-Ohio's arguments.

IEU-Ohio also urges the Commission to reconsider the modified ESP to evaluate whether the ESP meets the goals set forth in Section 4928.02, Revised Code. IEU-Ohio notes that Federal Energy Regulatory Commission Form 1 reveals that CSP's return on equity for 2009 was 20.82 percent versus 19.63 percent for 2008. (IEU-Ohio Comments at 5-6; IEU-Ohio Reply at 2-3.)

We reject IEU-Ohio's request to re-evaluate AEP-Ohio's modified ESP in light of the Companies' earnings. Pursuant to Amended Substitute Senate Bill 221, the Commission will evaluate CSP's and OP's ESP, as well as that of other electric utilities, to determine whether the plan produces significantly excessive earnings for the electric utilities in *In the Matter of the Investigation into the Development of the Significantly Excessive Earnings Test Pursuant to Amended Substitute Senate Bill 221 for Electric Utilities*, Case No. 09-786-EL-UNC, and, for this reason, we find it unnecessary to explore the issue in this case. We also find

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5 IEU-Ohio filed the same comments to AEP-Ohio's rider applications in *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company to Establish Environmental Investment Carrying Cost Riders*, Case No. 10-155-EL-RDR; and *In the Matter of the Application of Columbus Southern Power Company to Update its gridSMART Rider*, Case No. 10-164-EL-RDR.

6 *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company to Adjust Their Economic Development Cost Recovery Rider Pursuant to Rule 4901:1-38-08(A)(5), Ohio Administrative Code*, Case No. 10-154-EL-RDR, Entry on Rehearing at 3-4 (May 19, 2010); *In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company*, Case No. 09-872-EL-FAC, et al., Entry on Rehearing (March 24, 2010); and *In the Matter of the Application of Columbus Southern Power Company to Update its gridSMART Rider*, Case No. 10-164-EL-RDR, Finding and Order (August 11, 2010).

IEU-Ohio's request to reconsider whether AEP-Ohio's ESP meets the goals of Section 4928.02, Revised Code, to be an untimely attempt to reconsider the Commission's decision in the ESP cases.

B. Audit Process, Recommendations and Comments

1. Staff Audit Process

Staff's investigation of AEP-Ohio's ESRP application includes a review of actual incurred costs and review of the carrying charge rate used to determine the revenue requirement on investment plant.

2. Vegetation Management

According to Staff, the Companies and Staff agreed that the Companies would clear end-to-end 250 circuits in 2009. AEP-Ohio cleared only 238 circuits. Staff admits that in light of the date the Order in the ESP cases was issued, the Companies' circuit clearing for 2009 was delayed. Nonetheless, Staff recommends that the Companies complete the remaining end-to-end circuit clearing for 2010 and the 12 circuits that were to be cleared in 2009. Thus, Staff would expect AEP-Ohio to be on schedule to clear 500 circuits by the end of 2010. (Staff Comments at 5-6.)

AEP-Ohio states that it interpreted the end-to-end clearing of 250 circuits to be a goal or estimate, not a minimum requirement. With that reasoning, AEP-Ohio believes that it has fulfilled its commitment. Nonetheless, AEP-Ohio states that it will endeavor to clear, end-to-end, the additional 12 circuits provided the Companies are granted additional funding to do so. AEP-Ohio argues several factors affect the Companies' ability to clear an entire circuit such as the length of the circuit, weather, mutual assistance, and the availability of the equipment necessary to clear the rights-of-way. AEP-Ohio reasons that to clear 262 circuits in 2010 will add 240 miles to the current work plan and cost approximately an additional $1.64 million. (AEP-Ohio Reply at 2-3.)

Since the reply was filed, AEP-Ohio filed a letter docketed on July 21, 2010, which states that the Companies plan to clear an additional 12 circuits in 2010 to catch-up to the schedule, based on additional funding for the work. AEP-Ohio and Staff agree and recommend that an additional $1.64 million be recovered in the ESRP rider, subject to reconciliation to actual cost in the next ESRP rider proceeding. (AEP-Ohio Letter at 1; Staff Letter at 1.) OCC opposes recovery of an additional $1.64 million to clear the additional 12 circuits. OCC contends that pursuant to the approved ESP, the ESRP rider included the incremental costs associated with the Companies' enhanced vegetation initiative and any cost beyond the approved level is unjust, unreasonable and impermissible under the ESP Order and Section 4905.22, Revised Code.[7] (Second OCC Reply at 2-3.)

The Commission recognizes that AEP-Ohio was delayed in its commencement of the vegetation management initiative in 2009 and that only 238 circuits of the 250 circuits planned were actually cleared. To catch up to the goal of 250 circuits cleared each year of the ESP, in addition to the circuit clearance plan for 2010, AEP-Ohio will need to add 240 miles to the current work plan. The Commission finds that the $1.64 million is not an unreasonable amount for additional vegetation clearance funding for 12 circuits across 240 miles considering the overall annual enhanced vegetation management costs. We further note that AEP-Ohio and Staff have agreed to the additional funding to clear the 12 circuits. The Commission finds it appropriate to include the additional funding to keep the enhanced vegetation management plan on target to better align consumers' expectations regarding tree-caused outages, reliability and momentary outages with that of the Companies. The ESRP rider rates should be revised accordingly.

3. Financial Audit

(a) Expenses

As part of its financial review, Staff secured a detailed list of all the charges included in the ESRP application. Staff then selected a random sample and reviewed the documentation supporting the charges. In light of the fact that 96 percent of the charges consisted of vegetation management vendor invoices, Staff included 43 circuits in its review and reviewed all of the vegetation management invoices for those circuits, including amounts for labor, equipment and materials, and whether the expenditures were charged to maintenance or capital. Staff also did field visits to verify that the vegetation had been cleared from the 43 circuits. (Staff Comments at 4-6.)

Based on its review, initially Staff recommended that: (1) $2,134,934, in undocumented charges for work in 2009 and paid in 2010 be excluded from the ESRP rider; and (2) $16,445 in charges recorded in January 2009 for internal company labor performed in December 2008 (prior to the ESRP rider) be excluded (Staff Comments at 7).

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7 Section 4905.22, Revised Code, states:

Every public utility shall furnish necessary and adequate service and facilities, and every public utility shall furnish and provide with respect to its business such instrumentalities and facilities, as are adequate and in all respects just and reasonable. All charges made or demanded for any service rendered, or to be rendered, shall be just, reasonable, and not more than the charges allowed by law or by order of the public utilities commission, and no unjust or unreasonable charge shall be made or demanded for, or in connection with, any service, or in excess of that allowed by law or by order of the commission.

In its reply comments, the Companies claim that they submitted to Staff in response to Staff Data Request 4-2, an invoice paid in 2009 of $3,383,908 and acknowledge that the original accrual of $4,135,815 to the Companies' books was to assure services rendered in December 2009 are reflected in the proper period. AEP-Ohio explains that this end-of-the-year entry is reversed the following month when the invoice is received. AEP-Ohio states that this is a routine process. (AEP-Ohio Reply at 3.)

After discussions with Staff and other interested parties, AEP-Ohio agrees to an exclusion of $751,907 ($4,135,915 - $3,383,908) for charges included without invoice support for services provided by contractors in 2009 (AEP-Ohio Reply at 3; AEP-Ohio Letter at 1). AEP-Ohio also agreed to exclude $16,445 for work done in December 2008 that was, according to Staff, recorded in January 2009 (AEP-Ohio Letter at 1). Staff supports the resolution of the end-of-the-year transactions and internal company labor issues as presented by AEP-Ohio in its July 21, 2010 letter (Staff Letter at 1).

OCC initially requested that the Companies be permanently barred from subsequent recovery of the undocumented charges and requested that the Commission direct Staff to conduct a thorough investigation of the Companies' cost accounting practices. Subsequently, OCC stated that it did not object to the exclusion of $751,907 in undocumented charges for work in 2009 or to the exclusion of $16,445 for internal company labor. (OCC Reply at 3; Second OCC Reply at 3-4.)

The Commission finds this to be a reasonable resolution of the issue. The Commission is aware that it is a standard accounting practice for utilities to accrue charges for vendor work performed or products received in December but where the invoice will not be paid until January. Such accruals in December involve a corresponding reversal in January. AEP-Ohio and Staff agree and OCC does not object to the exclusion of $751,907 from the ESRP rider for services provided by contractors in 2009 due to a lack of documentary support for services. The 2010 ESRP rider calculation should include the corresponding reversal and should also be increased by $751,908 to match the adjusted accrual. The adjusted accrual will reduce the 2009 revenue requirement for the ESRP and be offset by a corresponding amount of payments in 2010 of invoices which accrued in 2009. In addition, the Commission finds that $16,445 shall be excluded for work done in December 2008 that was recorded in January 2009. The Commission finds that, with these corrections, it is unnecessary to further review AEP-Ohio's cost accounting policies and practices based on these transactions. Accordingly, we will not permanently bar the Companies from recovery of the undocumented charges or direct Staff to further investigate the Companies' cost accounting practices as OCC initially requested.

AEP-Ohio states that during the Staff audit, the Companies discovered an understatement of rider revenue that was reported in the initial filing of $27,514 for CSP and $8,301 for OP. Therefore, in the reply comments, the Companies proposed these amounts be reflected as an addition to correct the rider revenue in a compliance filing. Subsequently, in its July 21, 2010 letter, AEP-Ohio agreed to revise the application to account for the additional rider revenue, along with other Staff recommendations. (AEP-Ohio Reply at 3-4.) Staff acquiesced to this correction to reach a reasonable outcome in the case (Staff Letter at 1).

Based on the de minimums amount of the understatements and Staff's acceptance of the update to the rider revenue, the Commission finds this to be a reasonable resolution of the issue. The Commission directs that these understatements be reviewed as a part of the next annual ESRP reconciliation.

(b) Carrying Charge

The carrying charge to be applied to the investment for the enhanced vegetation initiative to determine the revenue requirement consists of four components. The revenue requirement rate consists of: (1) a rate of return factor; (2) a depreciation expense factor; (3) a federal income tax (FIT) factor; and (4) a combined property tax and administrative and general (A&G) factor.

(1) Rate of Return

Staff notes that the rate of return factor for the projected calculation was based on Schedule 3 of Exhibit PJN 10, from the ESP cases. In that exhibit, the rate of return factor is based on the Weighted Average Cost of Capital (WACC) which was 8.11 percent for both CSP and OP. The actual interest cost used by the Companies includes the effect of short-term interest rates, which causes the cost to vary monthly and requires extensive review. For this reason, Staff recommends that the Companies be consistent with the ESP Order and use the same WACC as approved in that filing, subject to update, when the Commission approves another debt/equity structure. (Staff Comments at 3.)

OCC rejects Staff's basis for use of the WACC. As OCC interprets the AEP-Ohio ESP Order, the Commission intended to conduct annual hearings each year to determine the annual carrying charge and the incremental amount of enhanced vegetation management expenditures. OCC reiterates that the burden to substantiate the appropriate carrying charges rest with AEP-Ohio and Staff's assertion that determining the actual interest cost would require extensive review is irrelevant. (OCC Reply at 4-6.)

Subsequently, AEP-Ohio agreed to revise the carrying cost calculations to use the same WACC and debt/equity ratio approved in its ESP cases as the Staff recommends (AEP-Ohio Letter at 2).

(2) Depreciation Factor

Staff notes the depreciation factor used for the actual revenue requirement and the projected revenue requirement is different. Staff recommends that the Companies utilize the latest Commission-approved depreciation factor. At this time, the latest approved depreciation factor is used in the ESP cases to calculate the revenue requirement for the actual and projected periods 2009-2010. (Staff Comments at 8.) As reflected in the Companies' updated exhibits, AEP-Ohio agrees to revise the carrying cost calculations to use the depreciation factor approved in the Companies' ESP cases as recommended by Staff (AEP-Ohio Letter at 2).

(3) FIT Factor

According to Staff, the FIT factor normalizes the effect of accelerated depreciation to straight line depreciation. Staff notes that the factor the Companies used in this application is the same as that approved in the Companies' ESP Order and has been consistently applied. Staff recommends no changes unless there is an approved change in the depreciation factor. (Staff Comments at 8.) AEP-Ohio agrees to revise the carrying cost calculations to use the FIT factor approved in the Companies' ESP cases as recommended by Staff (AEP-Ohio Letter at 2).

(4) Property Tax and A&G Factor

Staff states that the Property Tax and A&G factor is the same as that approved in the ESP cases, and has been consistently applied for both the actual and projected revenue requirements. Staff's review of the components show the revenue recovery rates (13.52 percent for CSP and 13.31 percent for OP) for the property taxes are based on a ratio of the booked property tax as of December 31, 2007 to the total plant, as developed for use in the ESP cases relative to the Companies' environmental plant investment. Staff argues that according to Ohio law, certified pollution control facilities are exempt from personal property taxes and are generation-related property; the non-certified plant is assessed property taxes on 24 percent of the true value. Staff reasons that ESRP is a distribution function, and the property tax for distribution related property is assessed on 85 percent of the true value. Therefore, Staff reasons the factor that includes the property tax component of the carrying cost developed in the ESP case should be corrected. Staff recommends using the revised rates of 15.14 percent, a 1.62 percent increase over the rate approved for CSP in the ESP cases and 14.43 percent, a 1.12 percent increase over the rate approved for OP in the ESP cases.

Thus, taking into account all of Staff's carrying charge recommendations, the carrying charge would increase by $60,893 for CSP and by $58,248 for OP (Staff Comments at 9).

By letter dated July 21, 2010, AEP-Ohio agrees to revise the carrying cost calculation, as recommended by Staff, to correct the property tax component (AEP-Ohio Letter at 2).

4. Other Comments

In its comments, OCC argues that as a result of the lack of clarity in the ESP Order and the lack the specificity in the Companies' ESRP application, OCC is unable to determine exactly what programs have been implemented as part of the ESRP vegetation initiative. OCC claims that it is unable to ascertain from discovery responses whether the operations and maintenance expenses and capital spending are incremental and has no basis for the calculation of the Companies' baseline spending. Further, OCC asserts that Staff's adjustment, based on its claim that vegetation management is a distribution-related function, is unsupported by the record or any documentation offered by the Companies. (OCC Comments at 2-4; OCC Reply at 6-8.)

In response, AEP-Ohio explains that in accordance with the directive in the ESP Order, the Companies included as a part of enhanced vegetation management plan the programs recommended by Staff in the ESP case.[8] The Companies note that the testimony of Staff witness Roberts in the ESP cases included five recommendations: end-to-end circuit right-of-way inspection and maintenance; mid-point circuit inspections to review vegetation clearance from conductors, equipment and facilities; greater clearance of all overhang above three-phase primary lines and single phase lines; removal of danger trees located outside of the Companies' right-of-way with permission of the property owner; and the use of technology to collect tree inventory data to optimize planning and scheduling.[9] Further, AEP-Ohio explains that the Companies have implemented end-to-end circuit inspections, cleared all overhang above three-phase primary lines and single-phase lines and removed danger trees outside of the right-of-way. In the reply, AEP-Ohio also explains that the Companies have commenced the process to collect field data and a program to manage and store vegetation management data. According to AEP-Ohio, the program is expected to be completed during the third quarter of 2010 with training to be conducted during the fourth quarter of 2010. (AEP-Ohio Reply at 4-5.)

As to the baseline for vegetation spending, AEP-Ohio responds that pursuant to the ESP Order and First ESP EOR, the Companies were directed to work with Staff to

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8 ESP Order at 34.

9 *In re AEP-Ohio ESP case*, Staff Ex. 2.

incorporate the recommendations of Staff and strike the correct balance within the cost level set forth in the Order to achieve the service reliability goals discussed in the ESP. AEP-Ohio reasons that in the ESP cases, the Companies proposed to use the prior four years vegetation spending as the baseline (2004-2007), producing a baseline spending level of approximately $22 million. As directed by the Commission in the ESP Order, AEP-Ohio and Staff negotiated a baseline of $24.2 million. The Companies note that the $24.2 million baseline is higher than historical spending levels and was agreed to by the Companies as a compromise in order to move forward with the enhanced vegetation plan. AEP-Ohio argues that the $24.2 million baseline level should be affirmed by the Commission despite OCC's comments since it is supported by the Companies' historical vegetation spending and is based on discussions with Staff and agreed to by the Staff, as the Commission directed. (AEP-Ohio Reply at 5.)

The Commission agrees that pursuant to the ESP Order and First ESP EOR, AEP-Ohio was only required to work with the Staff to strike the appropriate balance between the service reliability goals, as enunciated in the ESP Order, and to incorporate the amendments to the plan as recommended by Staff. With the additional explanation provided by AEP-Ohio in its reply comments clarifying the scope of the vegetation management plan and the baseline amount, the Commission finds that the issues raised by OCC have been addressed. We also note that the ESP Order and First ESP EOR determined that the proposed enhanced vegetation management program was incremental to the Companies' existing Distribution Vegetation Management Program and the cost embedded in the distribution rates.[10] Although never directly addressed in the ESP Order, the Commission clearly considered the ESRP, and specifically the enhanced vegetation initiative, distribution-related programs to benefit service reliability for AEP-Ohio's consumers. Thus, we find it unnecessary to further address these claims in response to OCC's comments at this stage.[11]

OCC asserts that Staff's proposed adjustments to the ESRP rider are unsupported by the record and, therefore, the Commission, if it elects to make a decision on the application and Staff's comments and recommendations, will have an insufficient record to comply with the requirements of Section 4903.09, Revised Code. OCC contends that the Staff in its recommendations and analysis of the Companies' vegetation management program has failed to distinguish between CSP and OP regarding the progress of the program, the financial audit and the physical audit. OCC reasons that the Staff's comments and proposed adjustments reflect that AEP-Ohio's vegetation management expenditures may be imprudent and that additional information is required for the Commission to determine the appropriate carrying charge. OCC asserts that it cannot evaluate Staff's recommendations by company. For these reasons, OCC requests that the

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10 ESP Order at 32-34.

11 ESP Order at 32-34; First ESP EOR at 14-18.

Commission direct the Staff to file a report and that a hearing be held. (OCC Reply 2-3, 6, 8.)

OCC posits that AEP-Ohio has not met its burden of proof to demonstrate that its carrying charges are prudent, as it should be required to do on an annual basis. In response to OCC, the Companies' claim that the calculation of 2009 carrying charges is based on Companies Ex. 7, Ex. PJN-10 in the ESP case. OCC claims that a review of Ex. PJN of the ESP cases does not support the Companies' inclusion of property taxes and A&G expenses in the annual carrying charges for the ESRP Rider. (OCC Comments at 5-8).

The Companies argue that OCC launches general concerns that the Companies have not met their burden of proof, fully explained issues to OCC's satisfaction, or ask that the Commission revisit the merits of the enhanced vegetation plan in this case. None of OCC's requests are appropriate according to AEP-Ohio. AEP-Ohio reasons that the Staff reviewed the carrying charge calculation and recommended, with minor exceptions, using the carrying charge approved in the Companies' ESP cases. Further, AEP-Ohio reasons that the Commission already reviewed the vegetation management plan and approved the benefits of the plan as part of the decision in the ESP case, in a manner that is consistent with Section 4928.143(B)(2)(h), Revised Code.[12] AEP-Ohio contends that annual ESRP update filings are more akin to audit proceedings to ensure that funds were actually spent in implementing the approved plan and expenditures were made in a prudent manner. This interpretation, in AEP-Ohio's opinion, is affirmed by the Commission in the First ESP EOR wherein the Commission clarified that the ESRP rider was created as "a mechanism to recover actual costs incurred so that the expenditures could be tracked, reviewed to determine that they were prudent and incremental to costs included in base rates, and reconciled annually." For these reasons, AEP-Ohio retorts that OCC's invitation to reconsider the merits of the ESRP rider should be rejected.

The Commission finds that sufficient information has been presented in the application and supporting exhibits, as updated, for the parties to evaluate the Companies' vegetation management plan and expenditures. After considering the application, the comments and position of the parties to this case, the Commission finds that the application does not appear to be unjust or unreasonable and, therefore, concludes that a hearing on the application is not necessary. Further, the Commission finds that sufficient information has been presented for the Commission to determine the issues raised by the parties in this case.

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12 ESP Order at 33-34 states "We believe that the Companies' proposal for a new vegetation initiative more closely aligns the customers' expectations with the Companies' expectations as it relates to tree caused outages, importance of reliability, and the increasing frustration surrounding momentary outages with the emergence of new technology."

As part of AEP-Ohio's ESP cases, the Commission evaluated and approved the carrying cost rate for the Companies' gridSMART and environmental investments.[13] The carrying cost in the ESP case is the most recent approved for AEP-Ohio. It is the Commission's practice to use the most recently approved carrying cost rate. Accordingly, we find it reasonable and appropriate to use the carrying cost rate approved in AEP-Ohio's ESP cases in the ESRP rider calculations, except as to the corrections recommended by Staff to correct the property tax component. We note that AEP-Ohio agreed to this correction and OCC did not object to the revision of the carrying charge calculation to correctly account for property taxes.

Further, to the extent that the Companies are recording depreciation on equipment used as part of the enhanced vegetation initiative with an entry to accumulated depreciation to be deducted from rate base in any future distribution or ESP proceeding, we find that such transactions avoid double recovery of capital investments in the ESRP rider. For these reasons, the Commission finds that the issues raised regarding the carrying cost calculation for the ESRP rider have been adequately and reasonably addressed. AEP-Ohio is directed to revise its ESRP rider rates, consistent with the Commission's decision in this finding and order, and file revised tariffs.

It is, therefore,

ORDERED, That AEP-Ohio is directed to file tariffs consistent with this finding and order. It is, further,

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13 In re AEP-Ohio ESP Order at 24-28; First ESP-EOR at 11-13.

ORDERED, That a copy of this finding and order be served upon all persons of record in this case.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Alan R. Schriber, Chairman

Paul A. Centolella

Valerie A. Lemmie

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GNS/vrm

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Reneé J. Jenkins
Secretary