

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of                    )  
Columbus Southern Power Company            ) Case No. 09-756-EL-ESS  
and Ohio Power Company for Approval        )  
of Proposed Reliability Standards.            )

OPINION AND ORDER

The Commission, having considered the record in this matter and the Stipulation and Recommendation (Stipulation) submitted by the signatory parties, and being otherwise fully advised, hereby issues its Opinion and Order.

APPEARANCES

Matthew J. Satterwhite and Steven T. Nourse, American Electric Power Service Corporation, One Riverside Plaza, Columbus, Ohio 43215, on behalf of Columbus Southern Power Company and Ohio Power Company.

Janine L. Migden-Ostrander, Office of the Ohio Consumers' Counsel, by Richard Reese, Assistant Consumers' Counsel, 10 West Broad Street, Suite 1800, Columbus, Ohio 43215, on behalf of the residential utility consumers of Columbus Southern Power Company and Ohio Power Company.

Richard Cordray, Ohio Attorney General, by Thomas W. McNamee and Sarah J. Parrot, Assistant Attorneys General, 180 East Broad Street, Columbus, Ohio 43215, on behalf of the staff of the Public Utilities Commission of Ohio.

OPINION:

I. Background

The Commission adopted modifications to the electric service and safety standards (ESSS) contained in Chapter 4901:1-10, Ohio Administrative Code (O.A.C.), on November 5, 2008, and May 6, 2009 (ESSS Case).<sup>1</sup> In accordance with the Commission's decisions in the ESSS Case, Rule 4901:1-10-10, O.A.C., required each electric utility to file an application with the Commission to establish company-specific minimum reliability performance standards. In addition, this rule sets forth the information that must be included in the application and established a process that would be followed for reviewing an application.

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<sup>1</sup> In the Matter of the Commission's Review of Chapters 4901:1-9, 4901:1-10, 4901:1-21, 4901:1-22, 4901:1-23, 4901:1-24, and 4901:1-25 of the Ohio Administrative Code, Case No. 06-63-EL-ORD, Finding and Order (November 5, 2008) and Entry on Rehearing (May 6, 2009).

Pursuant to the entry on rehearing in the ESSS Case, the Commission ordered electric utilities to file their proposed new reliability performance standards for the purpose of complying with Rule 4901:1-10-10, O.A.C., within 60 days following the effective date of the amended chapter. The amended chapter became effective on June 29, 2009.

On August 27, 2009, Columbus Southern Power Company (CSP) and Ohio Power Company (OP) (jointly, AEP-Ohio or Companies) filed the instant application, including workpapers, requesting approval of its system reliability standards pursuant to Rule 4901:1-10-10, O.A.C. In support of its application, AEP-Ohio states that the proposed standards reflect service area geography, system design, advancements in technology, customer survey results, and historical system performance.

Consistent with Rule 4901:1-10-10(B)(6), O.A.C., and in order to accomplish the review of AEP-Ohio's proposed reliability standards, by entry issued October 8, 2009, a technical conference was scheduled and a comment period established in this proceeding.

The technical conference was held on November 3, 2009. In accordance with the procedural schedule, comments were filed by the Office of the Ohio Consumers' Counsel (OCC) and Staff. Reply comments were filed by AEP-Ohio and OCC. By entry issued May 13, 2010, OCC's request for intervention was granted, a prehearing conference was scheduled for June 2, 2010, and the evidentiary hearing was scheduled to commence on June 28, 2010. The hearing was called, as scheduled, on June 28, 2010, and continued until July 28, 2010.

At the July 28, 2010 hearing, AEP-Ohio, OCC, and Staff submitted a Stipulation (Jt. Ex. 1) resolving all outstanding issues in the case. In addition, at the hearing, the parties requested and administrative notice was taken, without objection, of the following items in the docket: AEP-Ohio's application filed on August 27, 2009 (AEP-Ohio Ex. 1); proofs of publication filed on July 28, 2010 (AEP-Ohio Ex. 2); the testimony of Michele Jeunelot filed on July 23, 2010 (AEP-Ohio Ex. 3); AEP-Ohio Reply Comments filed on December 23, 2009 (AEP-Ohio Ex. 4); OCC Comments filed on November 23, 2009 (OCC Ex. 1) and OCC Reply Comments filed on December 23, 2009 (OCC Ex. 2); and Staff Comments filed on December 23, 2009 (Staff Ex. 1).

Ms. Jeunelot, manager of regulatory operations for AEP-Ohio, testified that the Stipulation is a just and reasonable resolution between knowledgeable and capable parties. Ms. Jeunelot notes that the Signatory Parties regularly participate in proceedings before the Commission, are knowledgeable in regulatory matters and were represented by experienced and competent counsel. Further, the witness stated that all parties to the proceeding were invited to attend all settlement discussions regarding AEP-Ohio's

reliability standards and the settlement discussions continued over a period of several weeks. (AEP-Ohio Ex. 3 at 3, 5.)

Further, AEP-Ohio witness Jeunelot claimed that the Stipulation provides several significant benefits to customers and interested stakeholders. The Stipulation includes a means by which stakeholders may continue to monitor the Companies' reliability performance, provides assurance to stakeholders that the Companies will continue to make customer service a priority, and applies the new reliability standards to calendar year 2010 even though the Stipulation was not executed until seven months into the calendar year. Ms. Jeunelot added that the Stipulation is consistent with established regulatory practices and principles. (AEP-Ohio Ex. 3 at 4-5.)

## II. Summary of the Application and Comments

Rule 4901:1-10-10, O.A.C., prescribes the measurement of each electric utility's service reliability, the development of minimum performance standards for such reliability, and the reporting of performance against the established standards. An electric utility's service reliability is measured by two service reliability indices: the customer average interruption duration index (CAIDI) and the system average interruption frequency index (SAIFI). CAIDI represents the average time to restore service per interrupted customer and equals the sum of customer interruption durations divided by the total number of customer interruptions. SAIFI represents the average number of interruptions per customer and equals the total number of customer interruptions divided by the total number of customers served.

Rule 4901:1-10-10(B)(2), O.A.C., requires each electric utility in Ohio to file with the Commission an application to establish company-specific minimum performance standards. The rule requires that the application include a proposed methodology for establishing reliability standards; a proposed company-specific reliability performance standard for each service reliability index based on the proposed methodology; and supporting justification for the proposed methodology and each resulting performance standard.

In its application, AEP-Ohio proposed that the following CAIDI and SAIFI reliability standards be based on a three-year average with adjustments to take into account the Companies' enhanced vegetation initiative approved in the electric security plan cases.<sup>2</sup> AEP-Ohio calculated its proposed standards by adding 1.5 standard deviations to the company's three-year CAIDI and SAIFI averages.

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<sup>2</sup> *In re AEP-Ohio ESP cases*, Case Nos. 08-917-EL-SSO and 08-918-EL-SSO, Opinion and Order (March 18, 2009); Entry on Rehearing (July 23, 2009); and Second Entry on Rehearing (November 4, 2009).

|      | Columbus<br>Southern<br>Power |       | Ohio Power |       |
|------|-------------------------------|-------|------------|-------|
|      | SAIFI                         | CAIDI | SAIFI      | CAIDI |
| 2009 | 1.68                          | 136.1 | 1.30       | 186.0 |
| 2010 | 1.63                          | 135.1 | 1.26       | 184.5 |
| 2011 | 1.58                          | 134.4 | 1.23       | 183.5 |

In summary, in its comments to the application, OCC asserted that AEP-Ohio failed to include in its application an explanation of how the geographic characteristics of its service area affect service reliability, demonstrate how customer perception survey results were incorporated into the Companies' minimum service reliability standards, and explain why it is appropriate to exclude major events and transmission outages from certain of its performance indices. Further, OCC argued that AEP-Ohio's use of a three-year average to calculate its baseline for the Companies' reliability performance standards is contrary to the Commission's guidelines. OCC also contended that AEP-Ohio's proposed adjustments for historical reliability performance are unreasonable and that the Companies failed to individually quantify adjustments for system design, technological advancements, service area geography, and customer surveys. Finally, OCC asserted that AEP-Ohio has failed to quantify the impact of historic outage causes. (OCC Ex. 1 at 2-17.)

Staff stated that, based on its analysis of AEP-Ohio's application and work papers, the Companies' historical performance and methodology for calculating historical performance is satisfactory and complies with the definition of major events as set forth in Rule 4901:1-10-01(Q), O.A.C. Further, Staff stated that as a general principle, it believes that the most recent five years of annual performance data should be used to calculate the average historical performance. However, in the case of AEP-Ohio, Staff acknowledged that, as part of a Commission-approved stipulation, AEP-Ohio was directed to improve service quality on certain poor performing circuits and to maintain the service quality on remaining circuits in 2004.<sup>3</sup> Staff noted that as a result of AEP-Ohio failing to meet all the terms of the stipulation, the Commission ordered the Companies to spend an additional \$10 million on vegetation management activities.<sup>4</sup> In recognition of the reliability concerns and remedial action ordered, Staff agreed with the Companies' exclusion of the years 2004 and 2005 from the historical average of annual performance. AEP-Ohio proposed to establish its performance standards at 1.5 standard deviations above the historic average.

<sup>3</sup> *In the Matter of the Settlement Agreement between the Staff of the Public Utilities Commission of Ohio and Columbus Southern Power Company and Ohio Power Company*, Case No. 03-2570-EL-UNC, Opinion and Order (January 21, 2004).

<sup>4</sup> *In the Matter of the Self-Complaint of Columbus Southern Power Company and Ohio Power Company Regarding the Implementation of Programs to Enhance Distribution Service Reliability*, Case No. 06-222-EL-SLF, Entry (May 16, 2007).

Staff disagreed with this method. Staff proposed that, to allow for a reasonable amount of variability from year-to-year in the performance standards, the Companies establish performance standards based on the most recent five-year average plus ten percent. In regard to the adjustments made to historical performance, Staff noted that AEP-Ohio accounted for the Companies' approved enhanced vegetation management program.<sup>5</sup> AEP-Ohio adjusted for its enhanced vegetation management program based on the reduction in outage frequency and duration experienced with the extensive tree trimming conducted in 2004 and 2005. Staff reviewed AEP-Ohio's calculations and determined that the Companies did not consistently use 2008 as a baseline. Staff recommended that the Companies' calculations be revised to consistently use 2008 as a baseline for calculating the reliability impact for the enhanced vegetation management program. Staff also recommended that the Companies revise the number of circuits to be trimmed as part of the enhanced vegetation management program as discussed with the Staff. Thus, incorporating the methodology and revisions proposed by Staff would result in a CAIDI standard of 136.19 for CSP in 2010 and a CAIDI standard of 170.40 for OP in 2010. Further, the Staff recommended a SAIFI of 1.61 for CSP in 2010 and 1.30 for OP in 2010. (Staff Ex. 1 at 2-9.)

In reply, OCC maintained that AEP-Ohio has failed to file documentation supporting its proposed outage standards. While OCC agreed that, in AEP-Ohio's case, the exclusion of 2004-2005 historic performance data from the baseline was appropriate, OCC explained that utilizing the five-year historic average plus 10 percent is a flawed and unreasonable means to establish CAIDI and SAIFI standards. Further, OCC stated that the Staff does not offer any reason or analysis for the methodology. OCC further asserted that Staff's proposed methodology results in unreasonably lax performance standards and rewards electric utilities with historically poor performance in service reliability. OCC asserted that Staff's proposed methodology does not force poorly performing utilities to improve their distribution reliability. In relation to the adjustments to historical performance, OCC recognized that incorporating 2008 as the baseline results in somewhat stricter performance reliability standards and mitigates the impact of the 10 percent adjustment to CAIDI and SAIFI, but argued that the enhanced vegetation management adjustments are impossible to quantify. Finally, OCC argued that Staff unreasonably proposes CAIDI and SAIFI reliability standards that are more relaxed than existing AEP-Ohio targets. For these reasons, OCC argued that AEP-Ohio has not met its burden to support its proposed performance reliability standards and that the standards proposed by AEP-Ohio and the Staff are unjust and unreasonable. Accordingly, OCC requested a hearing in this matter. (OCC Ex. at 2-13.)

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<sup>5</sup> *In the Matter of the Application of Columbus Southern Power Company for Approval of an Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Assets, and In the Matter of the Application of Ohio Power Company for Approval of an Electric Security Plan; and an Amendment to its Corporate Separation Plan*, Case Nos. 08-917-EL-SSO and 08-918-EL-SSO, Opinion and Order (March 18, 2009) and Entry on Rehearing (July 23, 2009).

AEP-Ohio responded that the information describing the geographic characteristics of its service area is intended to demonstrate that tree outages have a significant effect on the Companies' reliability standards. In regard to the customer surveys, AEP-Ohio stated that OCC mischaracterizes the level of customer satisfaction, as the surveys reveal that 88 percent of commercial customers and 85 percent of residential customers are satisfied overall with the service provided by AEP-Ohio. AEP-Ohio contended that the exclusion of major event days is implicit in industry standards and the Commission's rules. Further, AEP-Ohio stated that Staff has reviewed the Companies' performance each year under the previous provisions of Chapter 4901:1-10, O.A.C., and the purpose of this docket is to establish performance standards going forward, as opposed to reviewing past performance. AEP-Ohio noted that in comments subsequently filed by Staff, Staff did not raise a concern as to AEP-Ohio's use of a three-year average to calculate its baseline. Further, AEP-Ohio stated that it is willing to accept the Staff's method for determining the reliability standards in this proceeding. Finally, AEP-Ohio stated that support for system design and technological advancements were discussed in the application and incorporated into the Companies' CAIDI and SAIFI indices. As for grid modernization, AEP-Ohio noted that improvements from its initial deployment of gridSMART, which is for a defined portion of CSP's territory, will not be known until 2012. AEP-Ohio asserted it can better determine the impact of grid modernization at that time. (AEP-Ohio Ex. 4 at 2-7.)

### III. Stipulation

The Stipulation signed by AEP-Ohio, OCC, and Staff was submitted on the record at the hearing held on July 28, 2010 (Jt. Ex. 1). The Stipulation was intended by the signatory parties to resolve all outstanding issues in this proceeding. The signatory parties stipulate, agree and recommend that the Commission make the following findings and issue its Opinion and Order in this case, approving the Stipulation, in accordance with the following:

- (1) In its 2011 report of calendar year 2010 performance, and from year-to-year thereafter until changed, AEP-Ohio shall measure performance under the following reliability standards:

| Reporting Year   | CSP SAIFI | CSP CAIDI | OP SAIFI | OP CAIDI |
|------------------|-----------|-----------|----------|----------|
| 2010             | 1.59      | 136.00    | 1.23     | 170.40   |
| 2011 (and after) | 1.54      | 135.17    | 1.19     | 169.22   |

The Parties all agree that these standards are just and reasonable. These standards shall be in effect until new

standards are set, expected by the Parties to be no later than by the 2013 reporting year pursuant to paragraph 3 below.

- (2) These standards reflect the reliability improvements resulting from the enhanced vegetation management funding through 2011. AEP-Ohio agrees that any additional funding for vegetation management, whether through base rates or through a vegetation management rider, shall not be sought by AEP-Ohio except in the Companies' next base rate proceeding or through its next Standard Service Offering (SSO) proceeding.
- (3) The Signatory Parties' agreement to permit the CAIDI and SAIFI minimum standards, as included in this Stipulation, is subject to the requirement that AEP-Ohio will file an updated reliability performance standard application no later than June 30, 2012. AEP-Ohio's application shall be subject to the procedural schedule and safeguards as stated in Rule 4901:1-10-10(B)(6)(a) through (f), O.A.C, and the Signatory Parties will not oppose any request for a hearing filed by a Signatory Party with regard to the updated reliability performance standard application. The agreement not to oppose a hearing request shall not prevent a party from responding to arguments or assertions made by any commenter in that proceeding on issues other than the request for a hearing.

(Jt. Ex. 1 at 5-6.) Further, the Signatory Parties agree that the Stipulation is the product of an open process in which all the Parties were represented by able counsel and technical experts. The Stipulation represents a comprehensive compromise of issues raised by parties with diverse interests and the Signatory Parties have signed the Stipulation and adopted it as a fair and reasonable resolution of all issues. The Signatory Parties agree that the settlement and resulting Stipulation are a product of serious bargaining among capable, knowledgeable parties with diverse interests and that the settlement, as a package, benefits ratepayers and is in the public interest. The Parties agree that the settlement package does not violate any important regulatory principle or practice. Further, the Signatory Parties assert that all of the related issues and concerns raised by the Parties have been addressed in the substantive provisions of this Stipulation and reflect, as a result of such discussions and compromises by the Parties, an overall reasonable resolution of all such issues. (Jt. Ex. 1 at 3-4.)

#### IV. Consideration of the Stipulation

Rule 4901-1-30, O.A.C., authorizes parties to Commission proceedings to enter into a stipulation. Although not binding on the Commission, the terms of such an agreement

are accorded substantial weight. See *Consumers' Counsel v. Pub. Util. Comm.* (1992), 64 Ohio St.3d 123, 125, citing *Akron v. Pub. Util. Comm.* (1978), 55 Ohio St.2d 155. The standard of review for considering the reasonableness of a stipulation has been discussed in a number of prior Commission proceedings. See, e.g., *Cincinnati Gas & Electric Co.*, Case No. 91-410-EL-AIR (April 14, 1994); *Western Reserve Telephone Co.*, Case No. 93-230-TP-ALT (March 30, 1994); *Ohio Edison Co.*, Case No. 91-698-EL-FOR, *et al.* (December 30, 1993); *Cleveland Electric Illum. Co.*, Case No. 88-170-EL-AIR (January 30, 1989); *Restatement of Accounts and Records (Zimmer Plant)*, Case No. 84-1187-EL-UNC (November 26, 1985). The ultimate issue for the Commission's consideration is whether the agreement, which embodies considerable time and effort by the Signatory Parties, is reasonable and should be adopted. In considering the reasonableness of a stipulation, the Commission has used the following criteria:

- (1) Is the settlement a product of serious bargaining among capable, knowledgeable parties?
- (2) Does the settlement, as a package, benefit ratepayers and the public interest?
- (3) Does the settlement package violate any important regulatory principle or practice?

The Ohio Supreme Court has endorsed the Commission's analysis using these criteria to resolve issues in a manner economical to ratepayers and public utilities. *Indus. Energy Consumers of Ohio Power Co. v. Pub. Util. Comm.* (1994), 68 Ohio St.3d 559 (citing *Consumers' Counsel*, *supra*, at 126.) The court stated in that case that the Commission may place substantial weight on the terms of a stipulation, even though the stipulation does not bind the Commission. (*Id.*)

AEP-Ohio witness Michele Jeunelot testified that all of the parties to the settlement regularly participate in proceedings before the Commission, are knowledgeable in regulatory matters, and were represented by competent and experienced counsel. Additionally, Ms. Jeunelot offered that all of the issues raised by parties in the proceeding were addressed during settlement discussions and that all parties had an opportunity to participate in the settlement process. Finally, the witness also explained that the Stipulation benefits consumers and the public interest by providing a means for stakeholders to monitor AEP-Ohio's reliability and performance and by providing assurance to stakeholders that AEP-Ohio will continue to make customer service a priority. (AEP-Ohio Ex. 3 at 3-5.)

In this case, the Commission finds that the Stipulation is supported by adequate data and information. In addition, the Stipulation represents a just and reasonable resolution of the issues raised in this proceeding and violates no regulatory principle or



precedent. Further, we find that the Stipulation is the product of lengthy, serious bargaining among knowledgeable and capable parties in a cooperative process, encouraged by this Commission and undertaken by the parties representing varied interests, including the Staff, to resolve the aforementioned issues. Accordingly, the Commission concludes that Stipulation is reasonable and should be adopted in its entirety.

Additionally, the Commission notes that the Companies' vegetation management program and CSP's gridSMART deployment are anticipated to have positive impacts on reliability performance. The Commission directs AEP-Ohio to work with Staff to develop appropriate evaluation methodologies and report to Staff at least annually on the service reliability impacts of the vegetation management program and the gridSMART deployment.

FINDINGS OF FACT AND CONCLUSIONS OF LAW:

- (1) CSP and OP are public utilities as defined in Section 4905.02, Revised Code, and, as such, are subject to the jurisdiction of this Commission.
- (2) On August 27, 2009, AEP-Ohio filed an application for approval of its proposed reliability standards. On November 3, 2009, a technical conference was held on the application.
- (3) On November 23, 2009, and December 3, 2009, respectively, OCC and Staff filed comments. On December 23, 2009, OCC and AEP-Ohio filed reply comments.
- (4) On May 13, 2010, OCC was granted intervention in this proceeding.
- (5) On July 22, 2010, AEP-Ohio, OCC, and Staff filed a Stipulation that resolves all of the issues in this proceeding. No one opposed the Stipulation.
- (6) The evidentiary hearing was held on July 28, 2010. The Stipulation was admitted into evidence at the hearing.
- (7) The Stipulation meets the criteria used by the Commission to evaluate stipulations, is reasonable, and should be adopted.

ORDER:

It is, therefore,

ORDERED, That the Stipulation filed in this proceeding be approved and adopted in its entirety. It is, further,


ORDERED, That AEP-Ohio take all necessary steps to carry out the terms of the Stipulation and comply with this opinion and order. It is, further,

ORDERED, That nothing in this opinion and order shall be binding upon the Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

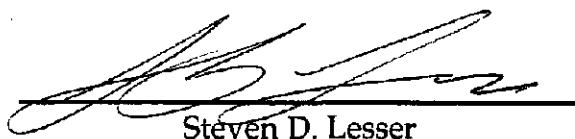
ORDERED, That a copy of this opinion and order be served upon all persons of record in this case.

THE PUBLIC UTILITIES COMMISSION OF OHIO

  
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Alan R. Schriber, Chairman

  
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Paul A. Centolella

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Valerie A. Lemmie

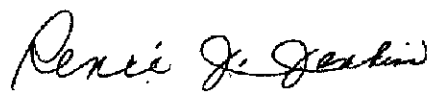
  
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Steven D. Lesser

  
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Cheryl L. Roberto

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Entered in the Journal

**SEP 8 2010**

  
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Renee J. Jenkins

Renee J. Jenkins  
Secretary