

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

ENTRY ON REHEARING

The Commission finds:

- (1) 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 in AEP-Ohio's ESP Order. The Commission-approved ESP permits the companies to recover the cost of the enhanced vegetation initiative via the enhanced service reliability plan (ESRP) rider.²
- (2) On February 11, 2010, as updated by letter docketed July 21, 2010, AEP-Ohio filed an application to update its ESRP rider (ESRP case). The Office of the Ohio Consumers' Counsel (OCC) and Industrial Energy Users-Ohio (IEU-Ohio) filed for, and were granted, intervention in the ESRP case.
- (3) After considering the application, the comments and reply comments, the Commission issued its finding and order on August 25, 2010, adjusting each company's ESRP rider rate (ESRP order).
- (4) Section 4903.10, Revised Code, states that any party who has entered an appearance in a Commission proceeding may apply for rehearing with respect to any matters determined in

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 *In re AEP-Ohio ESP Order* at 30-34; First ESP EOR at 15-18.

the proceeding by filing an application within 30 days after the entry of the order upon the journal of the Commission.

- (5) On September 24, 2010, OCC filed an application for rehearing of the Commission's ESRP order asserting that the order was unjust, unreasonable, and/or unlawful in three respects.
 - (a) The ESRP order fails to comply with the requirements of Section 4909.09, Revised Code, to the extent the order approves an additional \$1.64 million for vegetation management expense.
 - (b) The order is unreasonable to the extent that it did not permanently bar the Companies from recovery of 2009 undocumented charges of \$751,907.
 - (c) The Commission did not conduct a hearing on the carrying charges.
- (6) On October 4, 2010, AEP-Ohio filed a memorandum contra OCC's application for rehearing.
- (7) First, OCC argues that the ESRP order unlawfully, and without reason, approved a \$1.64 million increase for AEP-Ohio to trim the vegetation along 12 additional circuits in 2010. OCC reasons that AEP-Ohio's inability to clear the agreed-upon 250 circuits in 2009 does not justify increasing the rider above the amounts approved in the Companies' ESP case. The reasonableness of the amount of the additional funding to accomplish the vegetation management is, according to OCC, irrelevant. Further, OCC argues that it is not clear whether the additional \$1.64 million specifically increases the vegetation management expenditures approved in the ESP orders for the period 2009-2011. In a footnote, OCC states that it would not object, however, to the \$1.64 million in additional funding for 2010 if the expenditure is reconciled by a reduction in expenditures for the incremental vegetation management program in 2011.

- (8) In its memorandum contra, AEP-Ohio argues that the Commission has the authority to approve additional funding for vegetation management. AEP-Ohio reminds OCC and the Commission that one purpose of the vegetation management program is to convert to a four-year cycle. AEP-Ohio states that, as directed in the ESP order, the Companies worked with Staff to prioritize circuits to accomplish the transition to a four-year vegetation management cycle and the additional funding is recognition of the work necessary to accomplish the goal. The Companies further conclude that OCC's assertion that the ESRP order violates Section 4903.09, Revised Code,³ is without merit and quotes the portion of the ESRP order that lays out the Commission's rationale for the additional \$1.64 million in revenue for vegetation management. AEP-Ohio further reasons that the ESRP costs offered in the ESP case represent the Companies' best estimate at the time for the vegetation management program the Companies proposed and that costs to achieve a four-year vegetation trimming cycle have increased.
- (9) First, the Commission, like AEP-Ohio, believes OCC intended to argue that the ESRP order violates Section 4903.09, Revised Code, instead of Section 4909.09, Revised Code, as stated in its application for rehearing and will address OCC's claims accordingly.

Section 4903.09, Revised Code, states:

In all contested cases heard by the public utilities commission, a complete record of all of the proceedings shall be made, including a transcript of all testimony and of all exhibits, and the commission shall file, with the records of such cases, findings of fact and written opinions setting forth the reasons

³ AEP-Ohio notes that OCC cites Section 4909.09, Revised Code, Ascertainment of Value, which states: When the authority is conferred or the obligation is imposed upon the public utilities commission to ascertain the value of any public utility or railroad, such valuation shall be made in accordance with sections 4901.01 to 4901.14, 4901.17 to 4901.24, 4903.10, 4903.12 to 4903.19, and 4909.04 to 4909.15 of the Revised Code.

Thus, AEP-Ohio assumes OCC intended to cite Section 4903.09, Revised Code, which relates to findings of fact and conclusions of law in Commission orders, and responds accordingly.

prompting the decisions arrived at, based upon said findings of fact.

While the Commission believes that the ESRP order complies with the requirements of Section 4903.09, Revised Code, we will nonetheless further clarify the order. The Commission finds that AEP-Ohio cleared only 238 of the 250 circuits planned to be cleared in 2009 and that the purpose of the goal of clearing 250 circuits per year is to facilitate the Companies' transfer to a four-year vegetation management cycle from a performance based program. As AEP-Ohio demonstrated and the Commission recognized in the ESP order, the Companies have been faced with increasing costs for vegetation management.⁴ The record in the ESP case demonstrated the need to move to a four-year, cycle-based vegetation trimming plan along with other features of a vegetation management program, as recommended by Staff.⁵ The amounts that the Companies included in the ESP application were estimates based on the vegetation initiative AEP-Ohio proposed.⁶ With the cost of the program for 2009 now known, the Commission finds, as it explained in the order, that the agreement between the Companies and Staff that an additional \$1.64 million should be reflected in the ESRP rider is reasonable. We also find that the additional funding supports the Commission's goal to transition the Companies to a four-year vegetation management cycle. We therefore affirm our decision in the ESRP order to increase the ESRP rider by \$1.64 million and deny OCC's request for rehearing on this issue.

- (10) Second, OCC argues that the Companies should be permanently barred from subsequent recovery of the 2009 undocumented charges of \$751,907 and that the Commission should direct its Staff to conduct a thorough investigation of the Companies' cost accounting practices. OCC asserts that the undocumented 2009 charges in the amount of \$751,907, should not, and cannot, be recovered in the ESRP rider in

⁴ ESP Order at 32-33.

⁵ *Id.*

⁶ First ESP EOR at 18.

subsequent years. In OCC's opinion, the Commission's conclusion that the 2010 ESRP rider calculation could eventually be increased by \$751,907 to match the adjusted accrual is unreasonable and is not supported by the record. Further, OCC reasons that the ESRP order incorrectly leaves open the possibility that AEP-Ohio could seek recovery of some of the \$751,907 if the Companies locate additional contractor invoices.

- (11) The Companies respond that OCC's argument misses the purpose of the vegetation management program, as authorized by the Commission, to move to a four-year cycle. Further, AEP-Ohio contends that OCC's position would deny the Companies the ability to recover costs that can be verified for 2010 as is within the Commission's discretion to permit. AEP-Ohio notes that the Commission already denied OCC's request to investigate the accounting practices of AEP-Ohio and excluded, as OCC recommended, the undocumented charges for 2009. The Commission, in the Companies' opinion, properly adapted to the facts of this annual filing and properly provided the opportunity for unrecovered costs to be recovered when justified.
- (12) As explained in the ESRP order, the Companies utilize accrual accounting to account for ESRP expenses. In the ESRP order, the Commission excluded certain expenses but approved the accrual accounting methodology used by the Companies for ESRP expenses. The Commission recognizes that, pursuant to accrual accounting procedures, expenses are recognized when they are incurred. Because AEP-Ohio may be required to account for transactions in 2010 for expenses incurred in 2009, it is inappropriate to permanently bar AEP-Ohio from recovery of any portion of the \$751,907 in expenses incurred in 2009 for which the utility presents sufficient documentation in 2010. Accordingly, OCC's request for rehearing is denied.
- (13) Lastly, OCC argues that the Commission did not specify a carrying charge in the ESP Order to be applied to the investment for the enhanced vegetation initiative in order to determine the revenue requirement. Therefore, OCC claims there is no factual basis for the Commission to assert, as provided in the ESRP order, that it is reasonable and

appropriate to use the carrying charge cost rate approved in AEP-Ohio's ESP case in the calculation of the ESRP rider except to correct the property tax component. Further, OCC argues that the Commission failed to explain why it is appropriate to update the property tax factor but not the other factors. OCC posits it is unreasonable not to update the weighted average cost of capital (WACC) based on the difficulty for Staff to audit. Moreover, OCC claims the carrying cost approved by the Commission is simply too high and does not reflect the reality of the economic situation, given that the rate approved for AEP-Ohio "is far higher than almost any entity could find and is simply not justified." For these reasons, OCC asserts that the Commission erred by refusing to hold a hearing to determine the reasonableness of including these costs in the carrying charge rate and should abrogate the ESRP order on rehearing and conduct a hearing to determine the reasonableness of the carrying charges, the prudence of AEP-Ohio's baseline and incremental vegetation management expenditures, and the prudence of the approved carrying charges.

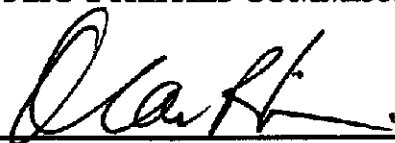
- (14) AEP-Ohio interprets OCC's application to take issue with the carrying charge ordered by the Commission in the underlying ESP cases. AEP-Ohio contends that the Commission's determination that it is reasonable to use the carrying charge cost rates approved in the Companies' ESP cases is a factual determination that is within the Commission's discretion. AEP-Ohio explains that there is nothing that requires the Commission to conduct an evidentiary hearing in this case given that OCC had ample opportunity to file its issues with the Commission and discuss the same with AEP-Ohio. AEP-Ohio notes that OCC cites no support for its contention that a hearing is required because no such requirement exists.
- (15) The Commission finds that a hearing is not required in this rider proceeding and that the Commission considered each of the issues raised by OCC in its ESRP order. OCC has failed to raise any arguments that the Commission has not previously considered. Accordingly, OCC's request for rehearing is denied.

It is, therefore,

ORDERED, That OCC's application for rehearing is denied. It is, further,

ORDERED, That a copy of this Entry on Rehearing be served upon all parties of record in this case.


THE PUBLIC UTILITIES COMMISSION OF OHIO



Alan R. Schriber, Chairman



Paul A. Centolella



Valerie A. Lemmie



Steven D. Lesser

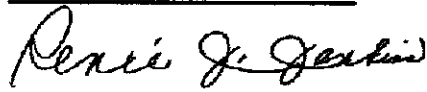


Cheryl L. Roberto

GNS/sc

Entered in the Journal

OCT 22 2010



Renée J. Jenkins
Secretary