

## BEFORE

## THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of )  
 Ohio Power Company and )  
 Columbus Southern Power Company ) Case No. 10-2376-EL-UNC  
 For Authority to Merge and Related )  
 Approvals. )

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REPLY COMMENTS OF  
 OHIO POWER COMPANY  
 AND  
 COLUMBUS SOUTHERN POWER COMPANY

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Pursuant to the Commission's February 9, 2011, Entry, Ohio Power Company (OPCo) and Columbus Southern Power Company (CSP) (collectively, "AEP Ohio" or "the Companies") submit the following reply comments to the initial comments that were filed on February 25, 2011.

**The Merger Will Provide Cost Savings, Albeit Limited**

A number of commenters have raised questions regarding the extent of cost savings from the merger and how ratepayers might benefit from merger-related cost savings. *See, e.g.,* Direct Energy Comments, at 2; Ohio Energy Group (OEG) Comments, at 1; Ohio Partners for Affordable Energy (OPAE) Comments, at 3-4; Industrial Energy Users-Ohio (IEU-Ohio) Comments, at 5; and Kroger Comments, at 2. As further quantified and discussed in Attachments 1 and 2 to these reply comments, the merger costs savings are minimal. Moreover, AEP Ohio has committed that the one-time merger costs are being accounted for below the line and will not be reflected in retail rates. Thus, the cost savings issues raised by commenters should not impede or delay the Commission from expeditious approval of the merger.

CSP and OPC reiterate, as stated in the application, the Companies have been jointly managed and operated for a number of years. This has resulted in substantial efficiencies, which have benefited their customers. Even so, the merger of the Companies will produce minor additional incremental efficiencies that are not currently present.

As an example of the cost savings quantified in Attachment 2, minimal incremental labor savings would occur due to a merger of the two companies since the field operations are currently being managed as a combined region. However, several areas have been identified where partial FTE savings may result due to eliminating certain activities that are currently being performed for both OPCo and CSP today (*i.e.*, financial planning, financial reporting, corporate finance, regulatory pricing). Total annual labor savings are estimated to be approximately \$200K. As for non-labor savings, a preliminary estimate of \$212K for non-labor related annual cost savings has been identified. The non-labor savings include savings in audit fees, bank fees, outside services related to legal matters, settlement process, and customer satisfaction reporting.

Merger savings can not be discussed without mentioning the one-time transition costs. As with any merger, there will be some associated one-time transition costs. The total one-time transaction costs, preliminarily estimated at \$1.25M, include areas of vehicle re-licensing and re-titling, information technology, and human resources (administrative tasks associated with setting up employees in another legal entity, obtaining new tax forms for all employees impacted, filing with agencies to unregister company and potential incremental costs associated with employees starting FICA over again with the company match).

In summary, AEP Ohio has estimated that there would be minor one-time transaction costs related to the merger. AEP commits that these costs will be booked below the line, so they

will not be reflected in retail rates. The Commission will be able to monitor this commitment through its authority to review AEP Ohio's books and records.

**The Merger Will Not Change Rates Or Affect The Commission's Authority And Discretion To Establish New Rates in the Pending Electric Security Plan and Distribution Rate Cases**

OCC/OEG, OMA, OPAE, IEU and FES suggest that there might be adverse rate impacts from the merger, or that the merger might affect the Commission's discretion to properly manage rate impacts on customers. At least one commenter concludes that the Commission should make decisions regarding the post-merger rates of the combined company in this merger proceeding. Specifically, OPAE points out, at page 2 of its comments, that OPCo currently has lower rates than CSP, and recommends that this merger proceeding is the appropriate docket in which to determine the extent to which these rate differentials should be maintained. In addition, after asserting that CSP's rates are too high, OPAE advocates, at page 3, that the Commission should make a decision to lower CSP's rates in this merger proceeding and then should implement the reduced rates "once the pending rate cases are completed."

OCC and OEG (which filed joint comments as "the Customer Parties") in their joint comments, at page 2, urge the Commission to defer ruling on the merger application "until after certain rate issues presented in the Companies' pending ESP cases are resolved." At page 3 of its comments, Ohio Manufacturers Association (OMA) appears to agree that any rate issues may be addressed in the Companies' pending ESP proceeding and distribution rate cases and that they need not be addressed in this merger. Nevertheless, OMA recommends that the Commission delay approval of the merger application while the Commission "continue[s] its investigation into the impacts of [the] merger proposal in the context of the ESP case and distribution rate case, among others . . . ."

IEU-Ohio acknowledges, at pages 1-2 of its Comments, that the merger of CSP into OPCo changes no legal relationship between CSP and its customers, and that the merger will not change CSP's tariff obligations. IEU-Ohio notes, at page 2-3, that other proceedings, such as the pending ESP case could affect the two companies' generation standard service offer rates, and recommends that "[t]he merger should not impede a careful review of the effects of the proposed rate changes, either in the ESP or as part of the merger review process." OEG, in a set of additional comments that it filed for itself, separate and apart from the joint comments which it also sponsored with OCC (as the Customer Parties), states that the only issue that it could identify that should be addressed in the merger case, and that would not be better addressed in the other ongoing AEP Ohio proceedings, such as the ESP case, is the extent to which savings might result from the merger of CSP and OPCo.

In response to these comments, the Companies reiterate that the merger application does not propose to change any rate for either Company and approval of the merger will not impact their rates. As stated in the application that initiated this proceeding:

After the merger OPCo will continue to provide retail electric services to customers within the pre-merger certified territories of CSP and OPCo in accordance with their respective rates and terms and conditions in effect for CSP and OPCo prior to the merger until such time as the Commission approves new rates and terms and conditions. More specifically, approval of the merger will not affect CSP's and OPCo's rates. It is the Companies intent to blend its retail rates in future proceedings. The merged Company intends to implement rates, terms and conditions so that customers in each pre-merger Company's pre-merger service territory will continue to be charged pre-merger rates, terms and conditions until such time as the Commission approves new rates, terms and conditions for the merged Company.

Application at ¶8. Since the time of the merger application, the Companies have filed their Electric Security Plan and Distribution Rate Cases.

Thus, in accordance with Paragraph 8 of the merger application, any rate changes will occur as a result of the Commission's decisions in other proceedings, such as the Companies' pending ESP proceeding, Case Nos. 11-346-EL-SSO, 11-348-EL-SSO, 11-349-EL-AAM, and 11-350-EL-AAM and their pending distribution rate case proceeding, Case Nos. 11-351-EL-AIR, 11-352-EL-AIR, 11-353-EL-ATA, 11-354-EL-ATA, 11-356-EL-AAM and 11-358-EL-AAM. Accordingly, OPAE's position that the Commission should use the merger proceeding as a forum to review the Companies' rates and decide whether or how they should be changed or maintained is both untenable and unwarranted. OPAE's position is untenable because the merger proceeding is not a ratemaking proceeding. Instead, the relevant question under §4905.402 is whether the merger will "result in the provision of adequate service for a reasonable rate, rental, toll, or charge."

Each Company's existing rates have been determined by the Commission to be reasonable in other proceedings, and the merger will not change any of those rates. Consequently, the merger will have no impact on, let alone adversely affect, the reasonableness of the Companies' existing rates. OPAE's position is unwarranted because the proper forum to consider its views on what changes should, or should not, be made to the Companies' current rates is the pending ESP and distribution rate case proceedings. Notably, the Commission retains the discretion and the flexibility to address all of the concerns regarding the Companies' rates raised by OPAE (and other commenters) in those pending ratemaking proceedings. The Companies propose, in their ESP and distribution rate proceedings, to integrate their generation SSO and distribution service rates and tariffs – the Companies do not propose addressing those rate issues in this merger case. The Commission has discretion in those rate proceedings to address the rate issues independent of the Commission's approval of the merger in this case and

there is no reason to delay approval of the merger based on the rate issues pending in those separate cases.

The stand-alone comments of OEG and the comments of IEU-Ohio come much closer to hitting the mark with regard to this point. Notably, OEG specifically states that the only issue it can identify that is not better addressed in another ongoing proceeding, such as the ESP or distribution rate case proceeding, is the extent to which the merger will produce incremental savings. Accordingly, as noted above, OEG agrees that issues regarding rates that the merged Companies will be charging in the future, including the issues that OPAE raises, may be addressed in the other ongoing (ESP and distribution rate case) proceedings. Similarly, IEU-Ohio also specifically notes that issues regarding rates may be addressed "either in the ESP or as part of the merger review process." Thus, IEU-Ohio also implicitly agrees that the other ongoing proceedings, such as the ESP proceeding, provide an adequate forum for addressing rate-related issues.

Several commenters contend that the Commission should delay its review of the merger until after the pending ESP and distribution rate cases are completed and the rate-related issues being addressed in those proceedings have been resolved. See, e.g., Customer Parties comments, at 2-3, and OPAE comments, at 5. They claim that they will not be able to evaluate whether the proposed merger meets the statutory standard of §4905.402(B) until those other proceedings have concluded. This proposal for delay in considering the Companies' proposed merger has no legitimate basis. As explained above, the merger will not affect rates. The other pending proceedings, including the ESP and distribution rate cases, will address and resolve rate-related issues. The Commission has received comments and is fully positioned to decide the merger

case without further delay or additional process. *In the Matter of the Joint Application of Cinergy Corp., on Behalf of The Cincinnati Gas & Electric Company, and Duke Energy Holding Corp. for Consent and Approval of a Change of Control of The Cincinnati Gas & Electric Company*, Case 05-732-EL-MER; *In the Matter of the Joint Application of CenturyTel, Inc. and Embarq Corporation for Approval of a Transfer of Control of United Telephone Company of Ohio, United Telephone Company of Indiana Inc. and Embarq Communications Inc.*, Case 08-1267-TP-ACO; and *In the Matter of the Joint Application of Alltel Ohio, Inc. and The Western Reserve Telephone Company for Consent and Approval of a Change in Control and the Transfer of Alltel Communications, Inc.'s Long Distance Customers*, Case 05-1580-TP-ACO.

**The Merger Will Not Impede The Commission's Ability To Administer The 2011 SEET**

IEU-Ohio notes, at page 3 of its comments, that the Companies may not make their initial filing to address 2011 earnings until mid-2012, and a Commission order addressing whether OPCo and CSP had significantly excessive earnings in 2011 may not be forthcoming until early 2013. Consequently, in the event that the Commission finds significantly excessive earnings for 2011, IEU-Ohio predicts that any required refunds might not occur until 2013. IEU-Ohio contends that this scenario illustrates that notwithstanding if and when the merger closes there will be a continuing need to address CSP and OPCo rates individually. IEU surmises that if the Companies proceed with the rate consolidation that they have proposed as part of their recent ESP application, the Commission's ability to address their rates individually will be made difficult. In particular, IEU observes, at page 4 (note 6) of its comments, that FERC Form 1 data, which is the basis for calculating the Companies' earned returns on equity for purposes of the SEET, may not be available on a separate company basis going forward after the merger.

IEU-Ohio's concern that it would be difficult to address CSP's and OPCo's SEET analysis individually for 2011, if it is appropriate to do so, are unfounded. If the Companies' merger is completed in 2011, they would file a FERC Form 1 for OPCo on a combined company basis for 2011, and the SEET analysis for 2011 will proceed based on the earned ROE for the post-merger combined Company. If the merger is not completed until after 2011, each Company would file a separate FERC Form 1 for 2011, and the SEET analysis for 2011 would proceed based on their separate earned ROEs for 2011. Approval of the merger now would not change the fact that adequate information would be available, in any event, to implement an appropriate remedy that the Commission decides regarding the 2011 SEET.

**The Merger Will Have Beneficial Effects On The Deployment of Energy Efficiency (EE) and Peak Demand Reduction (PDR) Programs**

At page 4 of its Comments OPAE alleges that the benefits of the merger on the alternative energy and energy efficiency/ peak demand reduction requirements of Sections 4928.64 and 4928.66 are illusory because they have not been quantified (p.4). CSP and OPCo reaffirm, as stated in the application, that the additional scale resulting from the merger will provide the merged Company with greater flexibility and a potentially improved basis for more efficiently meeting requirements under Sections 4928.64 and 4928.66, Revised Code, as well as future mandates for environmental controls.

While difficult to estimate the precise future savings, the logic is obvious. The requirements under Sections 4928.64 and 4928.56, Revised Code, both apply on an individual operating company basis in terms of percentage of load. Being able to acquire alternative energy and energy efficiency resources to meet a combined load is clearly easier than two individual company's loads wherein one may have surplus resources and one may be deficit.



As an example, both of these sections provide for the possible participation by certain retail customers (*i.e.*, “mercantile customers”). Under the current requirements, CSP or OPCo could potentially have customer interest in participating in these requirements that exceeded the individual company’s requirements, while the other company had customer interest that was deficient relative to its requirements. This would require the deficit company to take additional, potentially less economic, measures to meet the requirements. Meanwhile, the surplus company could have possible customer dissatisfaction if the over-subscription in such programs could not be accommodated. By combining the currently separate companies and percentage of load requirements from two to one, all such customer interest could be more easily accommodated and the single requirement be met in a more efficient manner. Similar arguments can be made for the flexibility and potentially improved economies of future environmental control decisions to meet company-wide environmental requirements.

While quantification of these future benefits is difficult, the statistical, operational, and economies-of-scale principles that support the expectation of these benefits are both well known and self-evident.

**The Merger Will Not Adversely Affect Data Exchange Systems Between AEP Ohio and CRES Providers**

Direct Energy and FES argues that the Commission also should require the Companies to explain any changes to the systems the Companies use to communicate with competitive retail electric service (CRES) suppliers regarding basic customer information (*e.g.*, name, address, customer class, load and other characteristics) and administrative and logistical details associated with the movement of a customer from SSO to CRES service. In other words, suppliers would like some assurance that the merger will not result in significant, costly changes to the current

information exchange systems between the distribution utilities and the competitive retail electric suppliers. There will be modifications made to the current communication/registration systems to reflect the merged company name and changes to the associated D-U-N-S® numbering.<sup>1</sup> At this time, however, the Company is not anticipating any significant changes to the data exchange systems that are utilized for electronic communications with competitive retail electric suppliers. AEP Ohio would also point out that, if anything, it would be easier and more efficient for CRES Providers to deal with one company versus two.

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<sup>1</sup> The Data Universal Numbering System, is a system developed and regulated by Dun & Bradstreet (D&B) that assigns a unique numeric identifier, referred to as a DUNS number, to a single business entity.

## CONCLUSION

The proposed merger of CSP and OPCo is a straightforward proposal that does not present any difficult regulatory issues. There is no need for a hearing and no substantive basis for objection. The rate issues that arise upon closure of the merger are already pending as part of AEP Ohio's distribution rate case and Electric Security Plan cases. Accordingly, the Commission should grant the relief requested in the application without further delay.

Respectfully submitted



Steven T. Nourse, Counsel of Record

Anne M. Vogel

American Electric Power Service Corporation

1 Riverside Plaza, 29th Floor

Columbus, Ohio 43215

Telephone: (614) 716-1606

Fax: (614) 716-2950

Email: [stnourse@aep.com](mailto:stnourse@aep.com)

Daniel R. Conway

Porter Wright Morris & Arthur

41 S. High Street

Columbus, Ohio 43215

Telephone: (614) 227-2270

Fax: (614) 227-2100

Email: [dconway@porterwright.com](mailto:dconway@porterwright.com)

**Counsel for Columbus Southern Power  
Company and Ohio Power Company**

Attachment 1

**Labor Savings**

Minimal incremental labor savings would occur due to a merger of the two companies since the field operations are currently being managed as a combined region. However, several areas have been identified where partial FTE savings may result due to eliminating certain activities that are currently being performed for both OPCo and CSP today (i.e., financial planning, financial reporting, corporate finance, regulatory pricing). Total annual labor savings are estimated to be approximately \$200K. See Attachment Merger Savings Analysis (Attachment 2) for calculation of cost savings, using the same approach for salary, incentive and fringe data as described in #1.

**Non-Labor Savings**

A preliminary estimate of \$212K for non-labor related annual cost savings has been identified as follows:

- ☐ \$100K annual savings in D&T Audit fees would begin the second year after the merger. No savings should be assumed the first year of a merger, because fees would be charged to review the combination of legal entities.
- ☐ \$12K annual savings in Bank fees, at \$1,000 per month.
- ☐ \$100K estimated annual outside services related to legal matters. Internal labor currently used for Ohio filings/issues would be reallocated to other work across the system, potentially reducing the need for outside counsel.
- ☐ Minor savings could occur in customer satisfaction sample size, reporting reliability metrics by operating company, etc., but overall, operational impacts would be minimal. Depending on whether tariffs are eliminated/combined, some billing efficiencies could occur.
- ☐ Transmission Settlement believes an AEP Ohio merger would simplify some of the settlement processes. From a load accounting perspective, separate company loads are calculated for both Ohio Power and CSP. The loads would need to be combined into a single entity and remodeled. Also there would be some up front time/costs associated with eliminating Intra-ties and renaming CSP Inter-ties to OPCo Inter-ties in CEAS as well as Generation resources. Some processes that are currently incorporated in the load calculation would be eliminated. Some possible savings though difficult to quantify at this time.

**Merger Analysis - Ohio Companies**  
**Cost Savings - Payroll & Benefits (\$s)**  
October 12, 2010

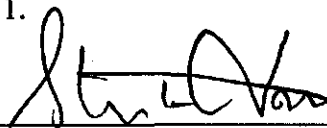
Finance											
Financial Reporting Financial Analyst I	0.50	18	89,200	10%	44,600	4,460	0	5,887	54,947		
Financial Planning Financial Analyst I	0.50	18	89,200	10%	44,600	4,460	0	5,887	54,947		
Corporate Finance Financial Analyst I	0.35	18	89,200	10%	31,220	3,122	0	4,121	38,463		
<b>Total Finance Group</b>	<b>1.35</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>120,420</b>	<b>12,042</b>	<b>0</b>	<b>15,895</b>	<b>148,367</b>		
Regulatory Services Group											
Regulatory Pricing Regulatory Analyst I	0.50	18	89,200	10%	44,600	4,460	0	5,887	54,947		
<b>Total Regulatory Services Group</b>	<b>0.50</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>44,600</b>	<b>4,460</b>	<b>0</b>	<b>5,887</b>	<b>54,947</b>		
<b>Grand Total - All BUs</b>	<b>1.85</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>165,020</b>	<b>16,502</b>	<b>0</b>	<b>21,783</b>	<b>203,305</b>		

**Notes**

1. **FTE Count** is the number of full-time employees associated with each job title
2. **Salary Grade** is the rating for each job title
3. **2010 Salary Mid Point** is Level III Midpoint for 2010 Salary Ranges from AEP's 2010 Salary Grade Matrix
4. **ICP Award %** is the Target Award Percentage for the 2010 Incentive Compensation Plan
5. **2010 Total Salaries = FTE Count \* 2010 Salary Mid Point**
6. **2010 Target ICP = FTE Count \* 2010 Salary Mid Point \* ICP Award %**
7. **2010 Target PSI (Performance Share Incentives)** is the target dollar value of a typical share grant for each salary grade, including dividend reinvestment, assuming target (1.000) plan performance and assuming AEP's final stock price to be \$36.00
8. **Fringe Adder** is assumed to be 12% and applied to 2010 Total Salaries and 2010 Target ICP
9. **Total Salary & Benefits = 2010 Total Salaries + 2010 Target ICP + 2010 Target PSIs + Fringe Adder**

## CERTIFICATE OF SERVICE

I hereby certify that a copy of these Comments by Ohio Power Company and Columbus Southern Power Company was served via Regular U.S. Mail Service, postage prepaid, upon the persons listed below, this 11<sup>th</sup> day of March, 2011.



Steven T. Nourse, Counsel of Record  
American Electric Power Service Corporation

## SERVICE LIST

Maureen R. Grady, Counsel of Record  
Terry L. Etter  
Jody Kyler  
Office of the Ohio Consumers' Counsel  
10 West Broad St., Ste. 1800  
Columbus, OH 43215-4385

William Wright  
Assistant Attorney General  
Chief, Public Utilities Section  
180 E. Broad Street, 6th Fl.  
Columbus, OH 43215-3793

Cynthia Fonner Brady  
Senior Counsel  
Constellation Energy Resources, LLC  
550 W. Washington St.  
Chicago, IL 60661

John W. Bentine  
Mark S. Yurick  
Chester Wilcox & Saxbe LLP  
65 E. State St., Ste. 1000  
Columbus, OH 43215

Mark A. Hayden  
FirstEnergy Service Company  
76 S. Main St.

Samuel C. Randazzo  
McNees Wallace & Nurick LLC  
21 E. State St., 17th Fl.  
Columbus, OH 43215

M. Howard Petricoff  
Stephen M. Howard  
Vorys, Sater, Seymour and Pease LLP  
P. O. Box 1008 - 52 E. Gay St.  
Columbus, OH 43216-1008

David C. Rinebolt  
Colleen L. Mooney  
Ohio Partners for Affordable Energy  
231 W. Lima St.  
Findlay, OH 45839-1793

David A. Kutik  
Jones Day  
North Point  
901 Lakeside Ave.  
Cleveland, OH 44114

Grant W. Garber  
Jones Day  
P.O. Box 165017

Akron, OH 44308  
Lisa McAlister  
Thomas J. O'Brien  
Bricker & Eckler, LLP  
100 S. Third St.  
Columbus, OH 43215-4291

Richard L. Sites, Genl. Counsel  
Senior Director of Health Policy  
Ohio Hospital Association  
155 E. Broad St., 15th Fl.  
Columbus, OH 43215-3620

Clinton A. Vince  
Douglas G. Bonner  
Daniel D. Barnowski  
Emma F. Hand  
Keith C. Nusbaum  
Sonnenschein Nath & Rosenthal LLP  
1301 K St., NW, Ste. 600, East Tower  
Washington, DC 20005

Columbus, OH 43215-5017  
Dorothy K. Corbett  
Associate General Counsel  
Duke Energy Business Services, LLC  
P.O. Box 960 - 139 E. Fourth St.  
Cincinnati, OH 45202

Michael R. Smalz  
Joseph V. Maskovyak  
Ohio Poverty Law Center  
555 Buttlers Ave.  
Columbus, OH 43215