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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company for Approval of a Mechanism to Recover Costs in Relation to the Department of Development's Update to the Percentage of Income Payment Plan Plus and Deferral of Costs.	:	Case No. 11-148-EL-RDR
In the Matter of the Application of Ohio Power Company for Approval of a Mechanism to Recover Costs in Relation to the Department of Development's Update to the Percentage of Income Payment Plan Plus and Deferral of Costs.	:	Case No. 11-149-EL-RDR
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company, Individually and, if Their Proposed Merger is Approved, as a Merged Company (collectively AEP Ohio) for an Increase in Electric Distribution Rates.	:	Case No. 11-351-EL-AIR Case No. 11-352-EL-AIR

MOTION
OF
THE OHIO DEPARTMENT OF DEVELOPMENT
TO
CONSOLIDATE PROCEEDINGS

The Ohio Department of Development ("ODOD"), pursuant to Rule 4901-1-16, Ohio Administrative Code, hereby moves for an order consolidating the above-styled applications of Columbus Southern Power Company ("CSP") and Ohio Power Company ("OPC") in Case Nos. 11-148-EL-RDR and 11-149-EL-RDR with their pending joint application for an increase in

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distribution rates in Case Nos. 11-351-EL-AIR and 11-352-AIR. A memorandum in support of the motion is attached.

WHEREFORE, ODOD respectfully requests that its motion to consolidate these proceedings be granted.

Respectfully submitted,

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BEFORE
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MEMORANDUM IN SUPPORT
OF
MOTION
OF
THE OHIO DEPARTMENT OF DEVELOPMENT
TO
CONSOLIDATE PROCEEDINGS

I. INTRODUCTION

By their joint application filed January 11, 2011 in Case Nos. 11-148-EL-RDR and 11-149-EL-RDR (the "RDR cases"), CSP and OPC (collectively, the "Companies" or "AEP Ohio") request Commission approval of distribution riders to recover the incremental increase in

uncollectible expense the Companies allege will be created as a result of the new rules governing the operation of the electric percentage of income payment plan ("PIPP"). The application also seeks approval of accounting modifications to permit the Companies to defer this incremental uncollectible expense until such time as it is recovered through the proposed riders.

ODOD, in its role as administrator of the electric PIPP program, filed a motion to intervene in the RDR cases on February 25, 2011. In the memorandum accompanying its motion, ODOD explained, *inter alia*, that the proposals contained in Companies' application would undermine an important objective of its new PIPP rules to the detriment of the Universal Service Fund ("USF") and the Companies' ratepayers. On April 29, 2011, ODOD followed up its motion to intervene by submitting comments in the RDR cases. In its comments, ODOD renewed its objections to the proposed PIPP-specific uncollectible expense riders and also demonstrated that the Companies' estimate of the impact of the PIPP rule change alluded to in the application was grossly overstated.

Ohio Partners for Affordable Energy ("OPAE") and the Office of the Ohio Consumers' Counsel ("OCC") filed motions to intervene in the RDR cases on January 18, 2011 and February 3, 2011, respectively. On May 24, 2011, OCC filed a motion to consolidate the RDR cases with the AEP Ohio January 27, 2011 application in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR for an increase in electric distribution rates. The Companies filed a memorandum contra the OCC motion on June 8, 2011, to which OCC replied on June 20, 2011.

In both the memorandum in support of its motion to intervene and its earlier comments, ODOD suggested that the Commission should consider whether the pending distribution rate case represents the more appropriate vehicle for addressing the issues identified by ODOD with

respect to the RDR applications.[1] For the reasons discussed below, ODOD now believes that consolidating the RDR cases with the rate case is clearly the better approach, and, thus, by the foregoing motion, joins OCC in requesting that these proceedings be consolidated for purposes of hearing and decision.

II. BACKGROUND

As described in detail in ODOD's previous filings in the RDR cases,[2] under the electric PIPP program, the electric distribution utility ("EDU") is reimbursed for the difference between the PIPP customer's specified monthly installment payment and the cost of the electricity delivered to the PIPP customer through payments by the EDU's ratepayers collected via the EDU's Universal Service Fund ("USF") rider. Prior to the enactment of the new electric PIPP rules, the EDU remitted the installment payments collected from PIPP customers to ODOD along with the USF rider collections, and ODOD reimbursed the EDU for both the installment payments and the difference between the PIPP installment payments received and the cost of the electricity delivered to the PIPP customers. Because the EDU was guaranteed 100 percent recovery of the cost of electricity delivered to the PIPP customer under this process regardless whether the PIPP customer made the monthly PIPP installment payment, the EDU had no incentive to disconnect a defaulting PIPP customer promptly or to pursue collection aggressively once the customer was disconnected. ODOD believed that absence of any such incentive may have resulted in the cost of PIPP collected from ratepayers through the USF riders being greater than it would have been if the EDU were at risk for the PIPP installment amount due – just as the EDU is at risk for the arrearages generated by non-PIPP customers that default on their bills.

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[1] ODOD Memorandum, 12; ODOD Comments, 9.
[2] ODOD Memorandum, 5-7 ; ODOD Comments, 3-5.

To address this concern, new Rule 122:5-3-04(B)(2), OAC, which became effective November 1, 2010, provides that the EDU is no longer entitled to reimbursement from the USF for any revenue deficiency resulting from a defaulting PIPP customer's failure to pay his/her monthly installment payment. Thus, although ODOD continues to reimburse the EDU for the difference between the PIPP installment amount and the amount of the actual bill based on the PIPP customer's metered consumption,[3] the EDU keeps the PIPP installment payments it collects and is now at risk for any PIPP installment amounts owed when a PIPP customer defaults. This places the defaulting PIPP customer installment payment balances on the same footing as the outstanding balances of defaulting customers, generally, and equalizes the incentive for the EDU to mitigate its bad-debt risk by promptly disconnecting the defaulting customers regardless whether they are PIPP or non-PIPP customers. Approval of the Companies' proposal to establish a PIPP-specific uncollectible expense rider would simply transfer the ratepayers' obligation to reimburse the Companies for PIPP customer defaults from the USF rider to the proposed PIPP-specific uncollectible expense rider, thereby defeating the purpose of the new rule.

ODOD does not dispute that uncollectible expense is an ordinary business expense that the Companies' are entitled to recover from ratepayers. However, the question is why there should be a separate rider mechanism for recovering PIPP-specific uncollectible expense when the Companies have never found it necessary to seek approval of an uncollectible expense rider for non-PIPP customer bad debt – or approval of deferred accounting treatment for such uncollectible expense – particularly in view of the fact the Companies' exposure is considerably

[3] *See* Rule 122:5-04(B)(1), OAC.

greater than in the case of non-PIPP customer bad debt.[4] In other words, if including an allowance in base rates for uncollectible expense works for uncollectible expense, generally, why should there be a separate rider mechanism – and deferred accounting to establish a regulatory asset – for PIPP-specific bad debt expense?

In posing this question, ODOD recognizes that the Companies' current base distribution rates do not contain an allowance for the incremental increase in uncollectible expense that will result under the new Rule 122:5-3-04(B)(2), OAC. However, the Commission-approved test year for AEP Ohio rate increase application in Case Nos. 11-351-EL-AIR and 11-352-AIR consists of the twelve months ending May 31, 2011, which would capture seven months' experience under the new rule. Thus, with an appropriate normalization adjustment for the remaining five months, the test-year analysis would provide a reasonable basis for establishing the annual allowance for PIPP-specific uncollectible expense <u>within</u> the allowance for uncollectible expense that will be built into the AEP-Ohio base distribution rate approved in that case. Such an outcome would preserve the objective of the new rule by putting PIPP-specific uncollectible expense and non-PIPP uncollectible expense on the same footing. But, even if the Commission were to ignore this important policy consideration, as explained below, general ratemaking principles alone support addressing the PIPP uncollectible expense issue in the context of the pending AEP Ohio distribution rate case.

[4] In the case of PIPP customers, the default amount is the amount of the unpaid PIPP installment, not the amount of the actual bill. Thus, the amount at risk in the case of defaulting PIPP customers is significantly less than the amount at risk in the case of non-PIPP customers.

III. ARGUMENT

A. ABSENT A SHOWING THAT THE COMPANIES' BAD DEBT EXPOSURE CANNOT BE ADEQUATELY ADDRESSED BY INCLUDING AN ALLOWANCE FOR PIPP-SPECIFIC UNCOLLECTIBLE EXPENSE IN BASE RATES, THERE IS NO BASIS FOR ESTABLISHING A SEPARATE, PIPP-SPECIFIC UNCOLLECTIBLE EXPENSE RIDER.

Historically, the Commission has approved rider mechanisms to recover specific costs in instances where the costs in question are subject to such significant fluctuations that including a fixed allowance for the costs in base rates based on the test-year experience would create substantial exposure for the utility. Indeed, this was precisely the circumstance that led the Commission to approve the concept of uncollectible expense riders for natural gas utilities in the first place (*i.e.*, escalating bad debt due to skyrocketing commodity prices).[5] However, as noted above, the Companies do not have uncollectible expense riders, nor have they ever sought authority to implement such riders, presumably because their bad debt experience has remained relatively stable over time, regardless of changes in the economy or increases in their rates. Indeed, as review of ODOD's annual USF rider rate applications will show, the CSP and OPC collection percentages utilized by ODOD to calculate the allowance for undercollection component of the USF rider revenue requirement has consistently been in the 99 percent range.[6]

Although the collection percentage for PIPP customer installment payments may or may not be the same as the collection percentage for non-PIP customer bill payments,[7] there is no reason to believe that PIPP-customer uncollectible expense would be more volatile from year to year than the uncollectible expense generated by non-PIPP customer defaults. Thus, recovering PIPP-specific uncollectible expense through base rates would create no more exposure for the

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[5] *See* Case No. 03-1127-GA-UEX (Finding and Order dated December 17, 2003).

[6] *See, e.g.,* Case No. 10-725-EL-USF (Supplemental Testimony of ODOD Witness Donald A. Skaggs, Attachments DAS-Rev-15 and DAS-Rev-16).

[7] As ODOD has previously explained, the new PIPP rules provide increased incentives for PIPP customers to make their installment payments on time. *See* ODOD Comments, 7-8.

Companies than the exposure associated with base-rate recovery of other uncollectible expense. Under these circumstances, there is no need or justification for establishing a separate bad debt rider for PIPP-related uncollectible expense.

B. THE TEST-YEAR ANALYSIS IN THE RATE CASE WILL IDENTIFY THE ACTUAL IMPACT OF THE NEW PIPP RULE ON THE COMPANIES' UNCOLLECTIBLE EXPENSE AND WILL PROVIDE THE COMMISSION WITH THE APPROPRIATE MEASURE OF THE ASSOCIATED REVENUE REQUIREMENT.

In their RDR application, the Companies asserted that the new electric PIPP rule in question would cause an incremental increase in their annual uncollectible expense of some $3.65 million per year.[8] In its comments, ODOD demonstrated that this estimate was grossly overstated and that, using the Companies' own numbers, the impact would be no more than approximately $1.1 million, and that the actual impact would likely be less.[9] However, consolidating the RDR cases with the rate case will eliminate the need to speculate as to the impact of the rule change because the test-year analysis will capture seven months' actual experience under the new rule. In so stating, ODOD recognizes that, due to AEP Ohio's use of a partially-projected test year in its rate increase application, the application, as filed, does not include actual data for the period November 1, 2010 through May 31, 2011. But, the Commission's staff can certainly request this data in the course of its investigation and there is nothing that precludes the Commission from adjusting the projected test-year data to reflect a known and measurable cost change of this type.

Plainly, including an allowance in the revenue requirement for the incremental increase in uncollectible expense resulting from the electric PIPP rule change via a normalization adjustment is far better from the ratepayers' standpoint than authorizing the Companies to create

[8] Application, 3.
[9] ODOD Comments, 5-8.

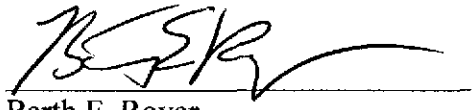
a regulatory asset of an unknown amount pursuant to the deferred accounting treatment that would accompany approval of a PIPP-specific uncollectible expense rider. Not only would the Commission be approving the amount to be deferred in the blind, [10] but ratepayers would be required to pay the carrying costs on the deferred balance, whatever it may be. Moreover, authorizing yet another deferral would impose the additional burden on the Commission, its staff, and other interested parties of policing the deferral – and the operation of the rider itself – notwithstanding that the size of the regulatory asset that would be created would be relatively modest as these things go.

IV. CONCLUSION

It is important to note that a Commission order granting the ODOD and OCC motions to consolidate the RDR cases with the rate cases will not decide the RDR cases one way or the other. Consolidating these cases will simply leave open the possibility of including an allowance for the PIPP-specific uncollectible expense in the revenue requirement established in the rate case if the record in the consolidated proceeding supports that outcome. Although, for all those reasons previously stated, ODOD believes that the Companies' application to establish a PIPP-specific uncollectible expense rider should be denied, consolidating the RDR cases with the distribution rate case represents the most efficient approach for dealing with the impact of the new electric PIPP rule on the Companies' uncollectible expense. Accordingly, the ODOD and OCC motions to consolidate these proceedings should be granted.

[10] The Companies' proposal is to set the original rider rate at zero, and fill in the numbers later, regardless of what the numbers turn out to be.

Respectfully submitted,



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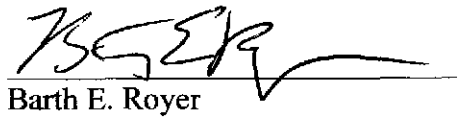
CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing has been served upon the following parties by first class mail, postage prepaid, this 20th day of July 2011.



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