

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)
Columbus Southern Power Company to) Case No. 11-1353-EL-RDR
Update its gridSMART Rider.)

OPINION AND ORDER

On March 18, 2009, the Commission issued its opinion and order in Columbus Southern Power Company's (CSP or Company) and Ohio Power Company's (jointly, AEP-Ohio) electric security plan (ESP) cases (ESP Order).¹ By entries on rehearing issued July 23, 2009 (First ESP EOR), and November 4, 2009, the Commission affirmed and clarified certain issues raised in AEP-Ohio's ESP Order. As ultimately modified and adopted by the Commission, CSP's ESP directed that CSP create the gridSMART rider.² CSP began billing its customers for the gridSMART rider in April 2009.

On March 18, 2011, CSP filed to update its gridSMART rider for 2010 expenditures. CSP explains that, as directed by the Commission in the ESP cases, it pursued, and has been awarded, funding through the American Reinvestment Recovery Act (ARRA) from the United States Department of Energy (USDOE). As presented in the ESP cases, gridSMART includes advanced meter infrastructure (AMI), home area network (HAN) and distribution automation (DA).³ CSP states that ARRA funding further required enhancement of the gridSMART plan presented to the Commission in the ESP cases to include real-time pricing, community energy storage, smart appliances, cyber security operation center and plug-in electric vehicle components at an additional cost of approximately \$41 million. In the Company's prior gridSMART rider application, Case No. 10-164-EL-RDR (10-164), CSP stated that it secured in-kind contributions from non-affiliated corporate partners to enhance its gridSMART plan, and the cost of the additional work and components will not be collected through the gridSMART rider. At that time, CSP also stated that it expected to avoid increasing the 2009-2011 revenue requirement for gridSMART Phase I. In other words, CSP expects to maintain approximately the same level of ratepayer funding during this ESP period. In 10-164, CSP represented that, in the ESP case, the Commission approved CSP's initial gridSMART rider at \$32 million, subject to annual reconciliation, based on the Company's prudently incurred costs and receipt of ARRA grant funding. CSP acknowledges that it suspended its gridSMART spending in 2009 because, under the ARRA process, expenditures incurred more than 90 days prior to USDOE award notification are not eligible for matching funds. Based in part on the

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 cases*, Order at 34-38; First ESP EOR at 18-24.

³ *In re AEP-Ohio ESP cases*, Order at 34.

Company's suspension of gridSMART expenditures, CSP over-recovered its gridSMART costs via the gridSMART rider for 2009. When the Company filed the previous gridSMART update in 10-164, the Company claimed it had resumed its gridSMART expenditures and expected to incorporate the "delayed" investments in 2010. Pursuant to the Commission's rulings in 10-164, CSP's gridSMART rider was set at \$0.52/month for residential customers and at \$2.27/month for non-residential customers effective with the first billing cycle of September 2010.

In the instant application, CSP states that spending in 2010 was delayed because the contract with USDOE was not finalized until May 25, 2010, and the Company slowed the pace of the project to avoid exceeding USDOE's reimbursement limits. CSP's application reveals an over-recovery of \$6,181,337 as of the date the application was filed. CSP plans to escalate gridSMART deployment for 2011 and has adjusted projected 2011 spending accordingly. CSP expects spending to catch up to initial projections and, therefore, requests that the rider rates previously approved by the Commission, \$0.52/month for residential customers and \$2.27/month for non-residential customers, be continued for the 2011 revenue requirement effective with the first billing cycle of July 2011.

By entry issued April 1, 2011, as revised by entry issued April 18, 2011, a procedural schedule was established whereby interested persons were directed to file comments to this and/or two other AEP-Ohio rider applications by May 20, 2011. Reply comments were due by May 31, 2011. The April 1, 2011 entry also granted the request for intervention filed by the Ohio Partners for Affordable Energy (OPAE). Motions to intervene were also filed by the Office of the Ohio Consumers' Counsel (OCC) and Industrial Energy Users-Ohio (IEU-Ohio). OCC and IEU-Ohio assert that each has a substantial interest in this case and that the disposition of the case may impair or impede their ability to protect that interest. The Commission finds that OCC and IEU-Ohio have set forth reasonable grounds for intervention, and, therefore, their respective motions to intervene should be granted. Comments were filed by OPAE and Staff. Reply comments were filed by OPAE, IEU-Ohio and CSP.

A. Audit Process, Staff Recommendations and Intervenor Comments

As a part of its investigation, Staff reviewed CSP's operations and maintenance (O&M) expenses and equipment purchase costs as well as the calculation of the revenue requirement.

(1) DA Equipment Expense

Staff identified \$6,808,575 in charges for DA equipment that had been purchased but not installed or equipment that was installed but not activated. Staff reasons that DA equipment that has not been installed or that is installed but not activated does not meet the requirement of "used and useful" for cost recovery purposes. As such, Staff recommends an exclusion for the cost of the equipment of \$6,808,575 from the gridSMART rider until the equipment is both installed and functioning as intended. (Staff Comments at 3-4.)

CSP challenges Staff's use of the traditional "used and useful" standard in a rider true-up case evolving from the ESP and claims that the current rider application is consistent with the Company's proposal of the gridSMART rider revenue requirement as set forth in the ESP and adopted by the Commission. CSP asserts that the use of a levelized carrying charge approach recognizes that while assets may not be in-service at the time of the audit, most assets will be placed in-service soon after purchase. CSP argues that the Company provided substantial evidence to the Staff that the dollars spent on DA equipment were prudent expenditures and, therefore, should be included in the 2010 capital expenditures to be recovered through the gridSMART rider. (CSP Reply Comments at 2-3.)

In the ESP, the Commission approved a gridSMART rider, as opposed to distribution rate increases over the term of the ESP, to better facilitate the audit of expenditures.⁴ In this case, as approved by the Commission, in order to encourage the expedient installation and operation of gridSMART technologies, prudent gridSMART investments are recoverable as costs are incurred. For this reason, we find Staff's recommendation to exclude DA equipment expense under the approved gridSMART program to be inappropriate.

(2) Labor Expense

Staff notes that CSP has included in the instant rider application \$211,845 in incremental internal labor expense. According to Staff, CSP considers filling new positions with internal employees, so called "backfilling," an incremental expense if the employee is specifically dedicated to the gridSMART project. Staff disagrees with the Company's interpretation of such labor expense as incremental. Staff contends that for the Company to recover for incremental costs via the gridSMART rider, CSP must establish that the costs are additional or incremental, would not have been incurred but for the project and are verifiable. Staff submits that CSP did not provide sufficient supporting documentation for

⁴ In re AEP-Ohio ESP cases, Order at 37-38.

gridSMART labor expense and, therefore, recommends that \$211,845 in labor expenses be excluded from the calculation of the rider. (Staff Comments at 4.)

In response, CSP states that the Company has provided Staff with verifiable evidence that the labor costs are for employees that are exclusively dedicated to the gridSMART project. The Company states that such costs would not have been incurred but for the gridSMART project and that the Company does not seek recovery of the gridSMART labor costs in its pending distribution rate case.⁵ Further, CSP states that the Company's proposal, as adopted by the Commission, in the ESP cases included O&M expense for internal labor as part of the gridSMART project and in 10-164 the Commission found the Company's commitment to include only incremental labor in the O&M internal labor expense to be reasonable.⁶ CSP states that it will make the appropriate adjustment to labor cost in the distribution rate case in accordance with the Commission's decision on the issue in this case. (CSP Reply Comments at 3-4.)

By letter filed July 29, 2011, Staff notes that its review of labor expense in this matter is an on-going investigation (Staff Letter). Further, Staff submits that as a part of its review in AEP-Ohio's pending distribution rate case filing, Case Nos. 11-351-EL-AIR and 11-352-EL-AIR, Staff has examined the labor expense included in the distribution rate case in comparison to the gridSMART rider and verified that CSP made certain adjustments to exclude internal labor costs, applicable overhead and benefits associated with gridSMART from the distribution rate case. Accordingly, Staff agrees to the \$211,845 in incremental internal labor expense as a part of the gridSMART rider. (Staff Letter at 1-2.)

CSP submitted an acknowledgement of the Staff Letter on August 1, 2011. Thus, the Commission finds that the issue has been reasonably resolved.

(3) Loss Meter Expense

In this application to update the gridSMART rider, Staff states that CSP included \$2,224,834 for loss on the disposal of electro-mechanical meters removed as a result of the installation of AMI equipment as part of the gridSMART project. CSP proposes to expense all of the old meters in one year. Staff discovered that some of the electro-mechanical meters would be used to replace other meters in CSP's service territory and had a remaining useful life of approximately 25 years. Staff continues to investigate whether and to what degree CSP may be retaining replaced electro-mechanical meters for use in the Company's service territory. Staff also questions whether it is appropriate for the

⁵ *In re AEP-Ohio rate distribution case*, Case No. 11-351-EL-AIR et al. The Company admits that an error in the calculation of the amount of incremental gridSMART employee payroll was discovered by the Company and brought to the Staff's attention. AEP-Ohio commits to correcting the amount of labor expense reflected in the distribution rate case to assure no double recovery of such costs.

⁶ 10-164, Order at 6 (August 11, 2010).

Company to expense the electro-mechanical meters in one year. Staff recommends that \$2,224,834 on the disposal of the electro-mechanical meters be deducted from 2010 gridSMART project costs and the issue be further considered in future filings. (Staff Comments at 4-5.)

CSP states that as part of the gridSMART project, 98,606 meters were eliminated from CSP's books and accounted for as a loss on the disposition of property. The Company asserts that it proposed, as part of the ESP case, that this loss be included in the gridSMART rider as a program expense and was a component of the program as approved by the Commission. CSP admits, however, that not all of the meters were scrapped and some were held in inventory or transferred to other territories within AEP Corporation. CSP states that, in the ESP case, the Company estimated that approximately 30 percent of the replaced meters would be scrapped; however, as a result of the inspection and testing criteria imposed by the Commission, the number of meters scrapped has increased to 60 percent. The Company therefore requests that the full cost of the meters be included in the O&M expense of the gridSMART rider for 2010. (CSP Reply Comments at 4-5.)

Staff determined, and the Company admits, that not all the meters removed from service were scrapped. CSP also admits that some meters were determined to be useful, based on Commission established testing criteria, and held in inventory or transferred to affiliate territories. On that basis, the Commission accepts Staff's recommendation that the \$2,224,834 for loss on the disposal of electro-mechanical meters be eliminated from 2010 gridSMART rider costs but directs that the issue be left open for further consideration in conjunction with future filings..

(4) Over-recovery

Staff notes that CSP's calculation of the revenue requirement for 2010 supports a gridSMART rider rate of \$0.94/month for residential customers and \$4.10/month for non-residential customers. During its review, Staff determined that CSP's application failed to include capital spending in 2009 in its calculation of the revenue requirement for 2010. According to Staff, correcting the revenue requirement in the amount of \$4,155,078 results in a rider rate of \$1.28/month for residential customers and \$5.57/month for non-residential customers. Staff claims that CSP was notified of the oversight but nonetheless proposes that the current gridSMART rider rates be continued. Staff also notes that the Company represents that its spending will reach the projected spending levels for the gridSMART project including the current over-collection. Staff offers that the increased level of spending could offset the revenue requirement oversight and the over-collection. Staff endorses the Company's request to maintain the currently effective gridSMART rider rates. (Staff Comments at 2-3.)

On the other hand, OP&E notes that CSP over-recovered \$7.5 million in 2009 and that 2010 gridSMART spending was less than expected such that CSP has once again over-recovered in the amount of almost \$6.2 million. OP&E argues that CSP's track record for gridSMART does not support maintaining the current rider rate. Therefore, OP&E requests that the Commission decrease the gridSMART rider rate consistent with 2010 spending levels and refund the over-recovery to ratepayers. Otherwise, OP&E contends that ratepayers are providing CSP an interest-free loan. (OP&E Comments at 1-2; OP&E Reply Comments at 2-4.)

CSP answers that, because the Company projects an under-recovery for 2011 and increased spending for 2011, Staff agreed with the Company's proposal to maintain the current rider rate despite the current over-recovery (CSP Reply Comments at 2).

OP&E urges the Commission to refund the over-recovery on the basis that it is an interest-free loan from ratepayers. While the Commission is mindful that CSP over-recovered for its gridSMART expenditures and generally recognizes that regulated utilities should return any over-recovery as quickly as possible, in this instance we note the gridSMART rate was adjusted with the first billing cycle of September 2010 for 2009 expenses and the annual adjustment for 2010 is based on 12 months ended December 31, 2010. Therefore, the application reflects only four months of the most recently approved gridSMART rider rate. It is also likely that the over-recovery will be significantly reduced as 2011 progresses. In addition, because CSP expects to significantly increase gridSMART spending for 2011, the Commission believes that it is unreasonable to adjust the gridSMART rider rate to incorporate the over-recovered gridSMART rider amount recorded as of December 31, 2010. Maintaining the current gridSMART rider rate, at \$0.52 for residential customers and \$1.27 for non-residential customers per month, avoids rate volatility.

As submitted by CSP, the application supports a gridSMART rider rate for 2010 of \$0.94 for residential customers and \$4.10 for non-residential customers per month, excluding the correction for 2009 revenue requirement. Correcting the gridSMART rider adjustment to reflect the 2009 revenue requirement increases the rider rate to \$1.28 for residential customers per month and to \$5.57 for non-residential customers per month. Even accounting for the ordered adjustment for loss meter expense, and including the over-recovery, does not reduce the rider to less than the \$.52/month for residential customers or the \$1.27/month for non-residential customers requested by the Company. As such, the Commission directs that the gridSMART rider be held at the current level of \$0.52 for residential customers and \$1.27 for non-residential customers per billing cycle.

(5) Effective date and term of the rider

Staff recognizes that the Company is not proposing that the gridSMART rider rate be changed in this case but nonetheless proposes that the rates become effective beginning September 1, 2011, and remain in effect for one year, if the Commission elects to extend the gridSMART rider as CSP requests in its currently pending ESP proceeding⁷ (Staff Comment at 5-6). CSP concurs with the Staff's recommendation that the current gridSMART rider rates continue for one year, through August 31, 2011, and the rates in this application commence September 1, 2011, subject to reconciliation (CSP Reply Comments at 5-6).

If the Commission does not extend the gridSMART rider, Staff recognizes that the rider rates adopted in this case will expire on December 31, 2011, with the currently effective ESP. Staff and OPAE also offer a number of reasons the Commission should extend the gridSMART rider rate beyond December 31, 2011. In its reply comments, IEU-Ohio argues that the Commission's consideration of an extension of the gridSMART rider is beyond the scope of this case and premature. IEU-Ohio encourages the Commission to address the extension of the gridSMART rider in the appropriate proceeding. (Staff Comment at 5-6; OPAE Reply Comments at 5; IEU-Ohio Reply Comments 4-6.)

The rates adopted in this case are to be effective with the first billing cycle in September 2011, and continue through December 31, 2011, unless otherwise ordered by the Commission. The pending application to update the gridSMART rider is not the appropriate docket to consider the extension of the rider beyond the term of the current ESP. The Commission will consider the extension of the gridSMART rider as part of AEP-Ohio's 2011 ESP cases currently pending before the Commission which is proposed to commence January 1, 2012. In the event that the gridSMART rider is extended and the issue is not otherwise addressed by the Commission as part of the Order in the pending ESP cases, CSP is directed to file a status report regarding any over-collections that may occur, with such report being filed by February 1, 2012.

It is, therefore,

ORDERED, That OCC's and IEU-Ohio's motions for intervention be granted. It is, further,

ORDERED, That Staff continue its investigation of the loss on meter expense. It is, further,

⁷ *In re AEP-Ohio 2011 ESP cases*, Case Nos. 11-346-EL-SSO et al.

ORDERED, That, if the gridSMART rider is extended, CSP file a status report regarding any over-collections by February 1, 2012. It is, further,

ORDERED, That CSP is directed to file tariffs consistent with this Opinion and Order to be effective with the first billing cycle for September 2011. 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



Todd A. Snitchler, Chairman



Paul A. Centolella



Steven D. Lesser



Andre T. Porter




Cheryl L. Roberto

GNS/vrm

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Secretary