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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**
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 Tariff Approval.	)	**Case No. 11-353-EL-ATA** **Case No. 11-354-EL-ATA**
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 Approval to Change Accounting Methods.	)	**Case No. 11-356-EL-AAM** **Case No. 11-358-EL-AAM**

OBJECTIONS TO THE STAFF REPORTS OF INVESTIGATION OF COLUMBUS SOUTHERN POWER COMPANY AND OHIO POWER COMPANY

Pursuant to Section 4909.19 of the Ohio Revised Code, Rule 4901-1-28(3) of the Ohio Administrative Code and the Attorney Examiner's Entry of September 16, 2011, Applicants, Columbus Southern Power Company (CSP) and Ohio Power Company (OPCo) (collectively, "Companies" or AEP Ohio), submit their objections to the Staff Reports of Investigation ("S.R.") filed in the above-styled proceedings on September 15, 2011 ("Staff Reports", "Staff Report" or "Report" as appropriate in context), specifically identifying areas of controversy with respect to certain findings, conclusions and/or recommendations set forth in the Report, or the failure of the Report to address certain matters. Except as otherwise noted, each objection pertains to both of the Staff Reports and both Companies. As a general, and in addition to the specific objections noted herein, the Company rejects the end result of the Staff Report. The Commission should not rely upon either Staff Report due to the clerical, formula and methodological mistakes throughout the two reports. The Staff Reports include several errors that had a number of revenue requirement impacts exceeding $5 million each. When added to the other positions reflected in the Staff Reports, the overall impact is an understatement of at least $30 million for CSP and $23 million for OPCo. The end result of the Staff's recommendations are that the investors' interests in a fair and reasonable return on and return of property devoted to public use will be confiscated by the adoption of the Staff Report.

The Companies reserve the right to supplement or modify these Objections, or to contest through presentation of evidence and/or cross-examination, any additional findings, conclusions or recommendations of the Commission Staff, or any changes in original positions taken by Staff or the Ohio Supreme Court that occur between the issuance of the Staff Report and the closing of the record. The Companies reserve the right to object to, comment upon by testimony, or otherwise oppose any positions taken by the Staff, which positions are not set forth clearly in the Staff Report, or which represent changes in or modifications of positions taken or recommendations made in the Staff Report.

OBJECTIONS

REVENUE REQUIREMENT

OBJ-1) The Staff Reports utilize costs of service that are based on inconsistent data and contain clerical errors.

a. The Staff Report erred by using data based on actuals in their adjustments, but did not correspondingly adjust the starting total distribution amounts, resulting in an analysis that improperly subtracts adjustments based on actuals from the as-filed estimated total distribution function in Schedule C-2, Col. C.

b. The overall results of the reports are invalid and unreasonable due to the cumulative effect of these errors in methodology resulting in a revenue recommendation which cannot be relied on. The Companies note numerous adjustments which contained errors of a clerical nature.

RATE BASE

OBJ-2) The OPCo Staff Report unreasonably and improperly adjusts plant account 365 down for capitalized labor booked after the date certain. The S.R. improperly stated that such amounts were in ratebase at date certain and adjusted them out. It is unreasonable and improper because the S.R. erroneously associated activity posted after the date certain as having been posted prior to the same.

OBJ-3) The Staff Reports unreasonably and improperly disallow the balance of miscellaneous working capital (Prepayments and materials and supplies inventory) from ratebase for both Companies because of the lack of a lead-lag study. The Standard Filing Requirements state that the lead-lag study is only required when an applicant requests an allowance for inclusion of cash working capital in ratebase.

OPERATING INCOME

Current Adjustments:

Rider Revenue and Expenses:

OBJ-4) The Staff Report adjusted the Companies' cases by using known actual rider revenue and expense amounts for the test year and subtracting them from the actual/projected values that the Companies based their filings upon. The Companies object to this methodology because the Staff Reports do not make the necessary corresponding adjustments to the total Distribution revenue and expense amounts, resulting in a misstatement of the Companies operating income. The Staff Reports contain errors (such as excluding necessary accounts or designing the adjustment such that the answer was wrong) that resulted in a misstatement of those adjustments.

Annualize Pole Attachment Revenues:

OBJ-5 The Staff Report for CSP makes an unreasonable and improper adjustment to increase pole attachment revenues for the stimulus funds received in relation to the gridSMART® project. This adjustment has already been included as an offset in the cost of service. This credit is a reimbursement for certain in-kind and payroll costs for gridSMART® that are not included in the rider. As a reimbursement, this amount would be booked as a credit to the account where the in-kind costs and payroll were recorded, so they have already been included as a credit to the cost of service.

OBJ-6 The Staff Report for CSP unreasonably and improperly used the wrong amount for gridSMART® reimbursements. Even if it were appropriate to make the adjustment to increase pole attachment revenues in relation to the gridSMART® project, the amount used was for calendar year 2010, and the adjustment should have been based on the test year amount.

Severance Amortization:

OBJ-7 The Staff Reports unreasonably and improperly disallowed half of the requested severance cost amortization because they characterized it as a partial benefit to shareholders. The severance program will benefit customers in the form of reduced O&M reflected in corresponding rates in future periods. The severance program was a prudent action to manage costs for the benefit of customers, so they should incur the offsetting costs.

Annualization of Pension & OPEB Expense:

OBJ-8 The Staff Reports improperly adjusted expense to reflect the most current actuarial reports. The adjustment did not reflect the necessary step of adjusting the starting expense to actual before applying the adjustment based on the actuarial report.

Depreciation Rate:

OBJ-9 The Companies do not object to the adjustment in the Staff Reports, to the extent the Commission recognizes the necessity and benefit of utilizing merged depreciation rates reflected following the consummation of the requested merger instead of the single company rates.

Budget Adjustment:

OBJ-10 The Staff Reports unreasonably and improperly made an adjustment to remove elements of the Companies' projected test year O&M expenses, as-filed. The Staff Reports unreasonably make adjustments to the projected test year data without any support that the data was improper as-filed. In addition, the change to use of the actual O&M expenses for CSP, as opposed to the as-filed basis, should have rendered the adjustment moot.

Adjustment to Actual:

OBJ-11 The Staff Reports unreasonably and improperly reflect actual activity in their costs of service. The Companies object to this unreasonable and improper adjustment because:

a) The adjustment posted for CSP only adjusted O&M expense (not other elements such as revenue and load) to actual. However, the adjustment was flawed in its methodology because it did not go far enough. The result of the adjustment should have included an offsetting adjustment to revenues to ensure that the base distribution operating income reflected the Company's actual results for the test year, and not a pseudo-return that consists of actual expenses subtracted from the estimated revenue.

b) The use of actual data fails to account for the test year impact of weather and requires the application of a traditional weather normalization adjustment.

c) The adjustment to actuals should have also included different tax expenses. The adjustment is improper and unreasonable because the Staff did not request the actual tax numbers with the proper functional, jurisdictional and out of period adjustments necessary to reflect the starting point for the actual test year. Hence, tax adjustments on the Staff Report also reflect a mismatch caused by subtracting actual expense from estimated amounts

d) While the OPCo Staff Report used actual data for adjustments, it still made the adjustments to the projected test year. This method of using actual data to adjust a projected starting point improperly applied changes.

Income Taxes:

OBJ-12 The CSP Staff Report unreasonably and improperly applies the federal tax results determined on Schedule C-4, when accumulating the values shown on schedule C-2.

Taxes Other Than Income Taxes:

OBJ-13 The Staff Reports make improper KWH Tax Rider adjustments. Related to the adjustment to reflect actual revenue and expense, the Staff Reports did not update to actual the total revenues or tax expense from which the revenue items were adjusted.

OBJ-14 The Staff Reports make improper adjustments for FICA taxes, because the Reports used the incorrect employee withholding rate of 4.2% instead of the proper employer rate of 6.2%

OBJ-15 The Staff Reports make improper exclusions of payroll taxes related to the generation and transmission function severance payments in the calculation of the annualized distribution payroll tax adjustment, including FICA expense.

OBJ-16 The Staff Reports improperly uses inappropriate payroll allocation factors for some tax calculations. In these instances total Company functional allocators (the relationship of generation, transmission and distribution to total Company) were applied to distribution only amounts.

Storm Damage Adjustment:

OBJ-17 The Staff Reports unreasonably and unlawfully proposed decreases in the major storm damage basis to a level proposed by Commission Staff in 11-346-EL-SSO et al. cases. The adjustment is unreasonable and unlawful because the lower suggested base-line relies upon a false premise that the Companies exposure to major storms has decreased due to aggressive right-of-way clearing.

OBJ-18 The Staff Reports unreasonably and unlawfully make an adjustment to the storm damage level because the Staff Report did not reflect the actual basis for O&M storm damages incurred during the test year.

Formula Error:

OBJ-19 The OPCo S.R. incorrectly understates the O&M adjustments to operating expenses because Schedule C-3 contains formula errors on lines 13 through 17. This results in an overstatement of operating income.

RATE OF RETURN

Capital Structure:

OBJ-20 The Staff Reports unreasonably and unlawfully reflect improper capital structures. The Companies' capital structures should be revised to remove the balance of debt equivalent to the balance of the regulatory asset(s) to which it is been assigned.

Cost of Common Equity:

OBJ-21 The Staff Reports unreasonably and unlawfully rely upon assumptions used in the development of their return on equity studies that create results that are biased towards an environment that is less risky than the Companies face resulting in an inappropriate return on equity recommendation. The Staff Report's proxy group is artificially constrained undermining the reliability of the quantitative results, almost one-half of the utilities in Staff's proxy group are rated single-A, which implies less risk and a lower rate of return than what is necessary to compensate for the risks of AEP Ohio's "BBB" rating, and AEP Ohio's parent, American Electric Power Company, Inc. ("AEP"), was erroneously excluded from Staff's analysis, even though it meets the selection criteria and is the Company's only source of investor-supplied equity capital.

OBJ-22 The Staff Reports are unreasonable and unlawful because the use of historical data violates the assumptions of the CAPM approach and fails to reflect current capital market requirements, yields on medium-term Treasury notes are irrelevant in estimating the required return for common equity, which is a long-term asset, and the application in the Staff Reports ignored adjustments to correct for differences in firm size that were quantified and explained in the same data source on which their CAPM was based.

OBJ-23 The Staff Reports unreasonably and unlawfully recommend a return on equity too low for the Companies to adequately compensate investors and are too low when compared to those approved in other jurisdictions.

OBJ-24 The Staff Reports unreasonably and unlawfully rely upon studies to determine the return on equity with faulty assumptions used in the design of the studies and are not reasonable given the type of study being performed.

OBJ-25 The Staff Reports unreasonably and unlawfully rely on studies to determine the return on equity that fail to recognize the realities and behaviors of the capital markets in which the Companies compete for funds.

OBJ-26 The Staff Reports are unreasonable and unlawful because the Discounted Cash Flow results are biased downward because the methodology incorrectly assumes that investors receive dividend payments at the end of the year, instead of through periodic payments.

OBJ-27 The Staff Reports are unreasonable and unlawful because the reports fail to overcome the evidence in direct testimony that supports the reasonableness of the recommended ROE for the Companies within the range of 10.55 percent to 11.55 percent.

DISTRIBUTION INVESTMENT RIDER (DIR)

OBJ-28 The Staff Reports unreasonably and unlawfully recommends that the decision on the Companies' DIR proposal be addressed in the 11-346-EL-SSO et al, standard service offer cases currently pending before the Commission because the recommendation seeks to remove an appropriate request and there is no guarantee that the Companies proposal in the SSO case will be approved as filed.

OBJ-29 The Staff Reports unreasonably and unlawfully recommend that the Commission use the net plant levels as of 2000 for the DIR until a decision has been rendered in these cases. The recommendation also fails to recognize that once rates are set in this case the DIR would only collect the return on net investment since August 31, 2010, the date certain in these cases upon which the new base distribution rates would be set.

TARIFF ANALYSIS

Section 3 – Conditions of Service:

OBJ-30 The Staff Reports unreasonably and unlawfully remove a sentence in the tariff that reads: "The Company reserves the right to specify the service characteristics, including the point of delivery and metering." This language is necessary to prevent situations where the customer requests an installation that results in additional expense for which they will only bear 40% of the cost.

Section 9 – Service Connections:

OBJ-31 The Staff Reports unreasonably and unlawfully disallowed language to allow the Company to charge a trip fee when, after a second trip, a scheduled installation cannot be performed because the customer was not prepared per CSP's tariff. The language will ensure that the cost of multiple trips is borne by the responsible customer, and not the general ratepayer.

Section 14 – Interval Metering Installations:

OBJ-32 The CSP Staff Report proposes tariff language changes that are unreasonable and unlawful that would require the customer to pay repair costs instead of replacement costs for parts of electronic meters when in most cases, replacement is the better option than trying to make repairs in the field.

Section 24 – Denial or Discontinuation of Service:

OBJ-33 The Staff Reports propose tariff language that, in the case of tampering, will not permit the customer to have power restored until it pays an estimate of the unmetered power and actual damages due to the tampering. The language is unreasonable and unlawful because it often takes some time to determine the actual damages to equipment. Adoption of this language could create a longer shut-off period until the actual costs are known.

OBJ-34 The Staff Reports propose tariff language to allow the Companies to collect a trip charge if a disconnection is not performed because the customer paid the delinquency. The recommendation is unreasonable to the extent that there could be extenuating circumstances that may allow a continuation of service.

OBJ-35 The Staff Reports propose tariff language to remove language that would allow for the collection of a fee if, between November 1 and April 15, the Company has to make a second trip for a delinquency. The language change is unreasonable and unlawful because this language permits the collection of a fee in situations where the billing system will not be triggered to send out a shut-off notice by mail. This language will provide the Company flexibility to address those situations.

MISCELLANEOUS CHARGES

Combined Company Rates for Miscellaneous Charges:

OBJ-36 The Staff Reports unreasonably and unlawfully recommend the use of individual Company charges instead of charges based on the merged Companies. Use of a single charge based on the merger of both Companies would provide administrative savings due to avoiding duplicate records. Additionally, the Company would benefit from one set of Terms and Conditions of Service for its combined Ohio service area.

Collection Charge:

OBJ-37 The Staff Reports unreasonably and unlawfully recommend a blended rate for collection charges, in direct conflict with its other recommendation for stand-alone rates versus the blended rates.

RATE AND REVENUE ANALYSIS

Revenue and Rate Distribution:

OBJ-38 The Staff Reports unreasonably and improperly neglect to recognize the pending merger of the Companies and requires a stand-alone rate structure.

MANAGEMENT AND OPERATIONS REVIEW

Procedures for Project Review:

OBJ-39 The Staff Reports unreasonably and unlawfully recommend procedures related to review of project approvals, cost tracking, completions and analysis that are already in place to keep costs low and complete with Sarbanes-Oxley requirements.

OBJ-40 The Staff Reports unreasonably and unlawfully recommends additional procedures related to review of project approvals, cost tracking, completions and analysis that do not include any support for how they would benefit customers or any funding to offset the additional administrative cost.

Respectfully Submitted

Matthew J. Satterwhite
Anne M. Vogel
American Electric Power
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215-2373
Telephone: (614) 716-1608
Facsimile: (614) 716-2950
mjsatterwhite@aep.com
amvogel@aep.com

CERTIFICATE OF OF SERVICE

I certify that Columbus Southern Power Company's and Ohio Power Company's foregoing filing was served by First-Class U.S. Mail upon Counsel listed below on this 17th day of October, 2011.

Matthew J. Satterwhite

William L. Wright, Section Chief Thomas McNamee Werner L. Margard III Assistant Attorney General Public Utilities Section 180 East Broad Street Columbus, OH 43215 William.wright@puc.state.oh.us Thomas.mcnamee@puc.state.oh.us werner.margard@puc.state.oh.us	John W. Bentine Mark S. Yurick Zachary D. Kravitz Chester Willcox & Saxbe, LLP 65 East State Street, Suite 1000 Columbus, Ohio 43215 jbentine@cwslaw.com myurick@cwslaw.com zkravitz@cwslaw.com
Samuel C, Randazzo Joseph E. Oliker Frank P. Dart McNees Wallace & Nurick 21 East State Street, 17th Floor Columbus, Ohio 43215 sam@mwncmh.com joliker@mwncnih.com fdarr@mwncmh.com	Thomas J. O'Brien Lisa G. McAlister Matthew W. Warnock Bricker & Eckler LLP 100 South Third Street Columbus, Ohio 43215-4291 lmcalister@bricker.com mwarnock@bricker.com tobrien@bricker.com
Henry W. Eckhart The Sierra Club 1200 Chambers Road, #106 Columbus, OH 43212 henryeckhart@aol.com	Barth Royer Bell & Royer Co LPA 33 South Grant Avenue Columbus, OH 43215-3927 barthroyer@aol.com

David F. Boehm Michael L. Kurtz Boehm, Kurtz & Lowry 36 East Seventh Street. Suite 1510 Cincinnati, Ohio 45202 dboehm@bkUawfirm.com mkurtz@bkllawfirm.com	Christopher Allwein Williams and Moser 1373 Grandview Ave., Suite 212 Columbus, OH 43212 callwein@williamsandmoser.com
Maureen R. Grady Larry Sauer Office of the Ohio Consumers' Counsel 10 West Broad Street, Suite 1800 Columbus, Ohio 43215-3485 grady@occ.state.oh.us sauer@occ.state.oh.us	Michael R. Smalz Joseph V. Maskovyak Ohio Poverty Law Center 555 Buttles Avenue Columbus, Ohio 43215 msmalz@ohiopovertylaw.org jmaskovyak@ohiopovertylaw.org
Richard L. Sites Ohio Hospital Association 155 East Broad Street, 15th Floor Columbus, Ohio 43215-3620 ricks@ohanet.org	Mark A. Hayden FirstEnergy Service Company 76 South Main Street Akron. OH 44308 haydenm@firstenergycorp.com
Benita Kahn Vorys, Sater, Seymour and Pease LLP 52 E. Gay Street Columbus, OH 43215 bakahn@vorys.com	Colleen L. Mooney Ohio Partners for Affordable Energy 231 West Lima Street Findlay, Ohio 45840 cmooney2@columbus.rr.com
Clinton A. Vince Douglas G. Bonner Daniel D. Bamowski Emma F. Hand Keith C. Nusbaum SNR Denton US LLP 1301 K Street NW Suite 600, East Tower Washington, DC 20005 clinton.vince@snrdenton.com doug.bonner@snrdenton.com dan.bamowski@snrdenton.com emma.hand@snrdenton.com keith.nusbaum@snrdenton.com	James F. Lang Laura C. McBride N. Trevor Alexander Calfee, Halter & Griswold LLP 1400 KeyBank Center 800 Superior Avenue Cleveland, OH 44114
John Davidson Thomas Hogan Lovells US LLP Columbia Square 555 Thirteenth Street, NW Washington DC 2004	