

deferral balances. Finally, going forward, the carrying charges should be compounded annually rather than monthly.

COMMENTS

A. A Blended PIRR Would Violate the Principle of Cost Causation

The Commission should require that the appropriate PIRR be applied to each AEP Ohio rate zone. The Ohio Energy Group ("OEG") argues in its comments that if the Commission intends to blend the FAC rates of Ohio Power Company and what was formerly Columbus Southern Power Company into one combined AEP Ohio FAC rate, then the Commission should likewise require all AEP Ohio customers to pay for the deferred fuel costs at issue in this proceeding. This argument to retroactively blend costs already incurred violates the principle of cost causation because it would shift costs caused by the customers in the Ohio Power Company zone onto the customers in the Columbus Southern Power Company zone.

This principle of cost causation -- that customers should only be asked to pay for the costs that they cause -- is the "basic underlying consideration" in establishing reasonable rates. *Mahoning Cnty. Townships v. Pub. Utils. Comm'n of Ohio*, 388 N.E.2d 739, 742 (Ohio 1979). The Ohio Power rate zone has very high deferred balances, whereas the Columbus Southern Power zone has already largely paid off its deferred balance (in its September 1, 2011 application, AEP Ohio estimated that the deferral balances as of December 31, 2011 would show a \$628,073,325 under-recovery for Ohio Power Company and a \$3,896,041 over-recovery for Columbus Southern Power Company). Blending the rates in the two zones will force customers in the Columbus Southern Power zone to pay for past costs that they did not cause in the Ohio Power Company zone. Although OEG is correct that it is reasonable to treat AEP Ohio as one company and transition to a single company rate structure now that the two subsidiaries have

merged, the deferred balances relate to costs incurred prior to the merger of the companies and were only caused by one rate zone, unlike FAC costs going forward.

B. AEP Ohio Must Adjust the PIRR Balance to Reflect the Commission's January 23, 2012 Order in the FAC Case

As Industrial Energy Users-Ohio ("IEU-Ohio") and the Ohio Consumers' Counsel ("OCC") have noted, it is unclear that AEP Ohio has reduced the deferral balance in compliance with the Commission's January 23, 2012 Order in the FAC case (Case No. 09-872-EL-FAC et al.). That Order required AEP to reduce its deferral balance to reflect the portion of the \$30 million 2008 lump sum payment not already credited to Ohio Power ratepayers, as well as the \$41 million value of the West Virginia coal reserve that AEP booked when it executed a settlement agreement.¹ The Commission affirmed that ruling in its order issued on rehearing in that proceeding on April 11, 2012.² Thus, AEP Ohio must reduce the deferral balances in compliance with the Commission's orders.

C. The Commission Should Make the PIRR Subject to Refund

In addition to the reduction in the deferral balance related to the FAC case, there are several additional ongoing proceedings that could impact the deferral balance, as was noted in the comments of IEU-Ohio and the OCC.³ The issues currently being litigated that could impact the deferral balances include amounts the Company temporarily collected under the now rejected

¹ Comments of IEU-Ohio at 12, *In the Matter of the Application of Columbus Southern Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Ordered Under Section 4928.144, Ohio Revised Code*, Nos. 11-4920-EL-RDR, et al. (Apr. 2, 2012) (hereinafter "Comments of IEU-Ohio"); Comments by the OCC at 9-11, *In the Matter of the Application of Columbus Southern Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Ordered Under Section 4928.144, Ohio Revised Code*, Nos. 11-4920-EL-RDR, et al. (Apr. 2, 2012) (hereinafter "Comments by the OCC").

² Entry on Rehearing, *In the Matter of the Fuel Adjustment Clauses for Southern Columbus Power Company and Ohio Power Company*, Case Nos. 09-872-EL-FAC, et al. (Apr. 11, 2012).

³ Comments of IEU-Ohio at 13-14; Comments by the OCC at 5-15.

ESP II, POLR amounts for 2009 forward, and the FAC annual audits.⁴ These issues could impact the deferral balances by hundreds of millions of dollars.⁵ If AEP Ohio is allowed to collect the deferral balances through the PIRR on a non-refundable basis, and the various proceedings affecting the deferral balance take an extended period of time to resolve, there is considerable danger that AEP Ohio could over-collect on the PIRR. In recognition that these proceedings could ultimately reduce the deferral balances by a substantial amount, the Commission should make the PIRR subject to refund pending the outcomes of the various proceedings that could affect the deferral balance. Doing so will ensure that ratepayers are able to benefit from the ultimate rulings in those cases.

D. The Carrying Charges on the PIRR Should be Compounded Annually

Ormet supports Staff's argument that the Companies should be required to calculate the deferred fuel balance going forward using annual compounding and not monthly compounding.⁶ As Staff noted, annual compounding would be consistent with the Commission's recognition of an annual interest rate in AEP Ohio's rate of return allowance. It would also result in substantial savings for customers.

E. If the PIRR is Deferred, the Carrying Charges Should be Reduced to the Long-Term Cost of Debt Rate

Finally, in the ESP II case AEP Ohio proposed deferring collection of the PIRR until June, 2013. AEP Ohio would like to continue to apply carrying charges based on the Weighted Average Cost of Capital ("WACC") during the deferral period. It would also have the

⁴ Comments of IEU-Ohio at 13-14; Comments by the OCC at 5-15.

⁵ Comments of IEU-Ohio at 13-14; Comments by the OCC at 5-15.

⁶ Revised Comments and Recommendations Submitted on Behalf of the Staff of the Public Utilities Commission of Ohio at 11, *In the Matter of the Application of Columbus Southern Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Ordered Under Section 4928.144, Ohio Revised Code*, Nos. 11-4920-EL-RDR, *et al.* (Apr. 3, 2012).

Commission suspend the procedural schedule in this proceeding and consider the PIRR as part of the ESP II proceeding.⁷ AEP Ohio has not yet made the latter proposal in this proceeding; however, out of an abundance of caution, Ormet now indicates that it supports the deferral of PIRR collection, but opposes the continuation of WACC-based carrying charges.

As Ormet noted in its Comments, although the Commission did approve carrying charges based on the WACC in the ESP I cases approval was for the ESP I time period of 2009-2011.⁸ The Commission has not yet resolved the issue of what to do about carrying charges moving forward, but it has broad discretion under Revised Code Section 4928.144 regarding the creation and duration of the PIRR.⁹ The Commission has broad discretion under Revised Code Section 4928.144 regarding the creation and duration of a phase-in of a rate increase established pursuant to Revised Code Sections 4928.141 through 4928.143. Further, as the Ohio Supreme Court has explained, “[a]gencies undoubtedly may change course, provided that the new regulatory course is permissible.”¹⁰ A course-change is permissible when the Commission explains the reasons it “believes [the new policy] to be better.”¹¹ Here, circumstances for customers have changed substantially since the Commission issued its ESP I order in early 2009. AEP Ohio’s customers have now been struggling with an extended economic downturn for three additional years. The

⁷ Ohio Power Company’s Modified Electric Security Plan at 14-15, *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to § 4928.143, Ohio Rev. Code, in the Form of an Electric Security Plan*, Nos. 11-346-EL-SSO, *et al.* (Mar. 30, 2012).

⁸ Opinion and Order, *In the Matter of the Application of Columbus Southern Power Company for Approval of an Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Assets*, Nos. 08-917 *et al.* (Mar. 18, 2009).

⁹ See Ohio Rev. Code §§ 4928.141 through 4928.144 (West 2011) (providing broad discretion to craft the details of the phase-in of a rate increase like the PIRR); *see also* Ormet Initial Comments.

¹⁰ *Util. Serv. Partners, Inc. v. Pub. Utils. Comm’n of Ohio*, 921 N.E.2d 1038, 1043 (Ohio 2009).

¹¹ *Id.*

expiration of the rate caps on the FAC has already subjected customers to a significant rate increase -- in Ormet's case an increase of 8 percent over the average GS-4 tariff rates applicable to Ormet in 2011. Changed circumstances therefore justify reducing the carrying charges to AEP Ohio's long-term cost of debt if the Commission permits continued deferral of the collection of the deferral balances.

CONCLUSION

For the reasons set forth above, the Commission should require that the carrying charges applied to the deferral balances be based upon the long-term cost of debt, and should require that the deferral balances be adjusted to reflect the impact of ADIT.

Respectfully submitted,



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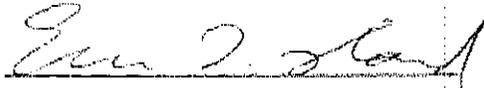
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CERTIFICATE OF SERVICE

I hereby certify that a copy of the *Reply Comments of Ormet Primary Aluminum Corporation* was served by U.S. Mail and email upon counsel identified below for all parties of record this 17th day of April, 2012.



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