

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Fuel Adjustment Clauses)	
of Columbus Southern Power Company and)	Case No. 10-268-EL-FAC
Ohio Power Company.)	Case No. 10-269-EL-FAC

**OHIO PARTNERS FOR AFFORDABLE ENERGY'S
POST-HEARING BRIEF**

I. Introduction

Ohio Partners for Affordable Energy ("OPAE") hereby respectfully submits to the Public Utilities Commission of Ohio ("Commission") this post-hearing brief in the above-referenced matters concerning the 2010 review of the fuel adjustment clauses ("FAC") of Columbus Southern Power Company and Ohio Power Company (together, "Companies"). The Companies are affiliate public utility operating companies of American Electric Power ("AEP").

OPAE is an intervenor only in these two 2010 FAC proceedings. Therefore, OPAE has no position on the 2011 FAC proceedings that were heard at the same time as the 2010 proceedings. OPAE's silence on the 2011 proceedings is not indicative of anything other than the fact that OPAE did not intervene in and is not a party to the 2011 proceedings.

OPAE has reviewed the 2010 FAC Audit Report for the Companies and agrees that the Report's findings and recommendations are well-supported and reasonable and should be adopted by the Commission. OPAE also supports two additional modifications to the auditors' recommendations as set forth in the testimony of the Office of the Ohio Consumers' Counsel ("OCC") witness Daniel J. Duann. OCC Exhibit 1.

II. The RTD Cash Working Capital Requirement Should Be Excluded From 2010 Fuel Costs.

Dr. Duann noted the 2010 auditors' recommendation about the cost of coal transportation charged to Ohio Power Company ("Ohio Power") by the AEP River Transportation Division ("RTD"), owned by Indiana and Michigan Power Company ("IMPC"), another AEP affiliate. RTD is responsible for shipping coal by barge to Ohio Power and other AEP operating companies. OCC Ex. 1 at 7; 2010 Audit Report at 1-10 and 7-99 to 7-109. The auditors recommended that AEP should be required to analyze the receipt of revenue and the payment of cash expenses for RTD captive operations. AEP's analysis would be similar to a lead-lag study, and AEP would present such information to support AEP's assumption that RTD has a significant cash working capital requirement. If adequate supporting information was not provided to substantiate that RTD has a significant cash working capital requirement and the amount of that requirement using the lead-lag study analysis of cash receipts and cash payments, the capital component of the RTD investment base should be removed from the cost charged by RTD to Ohio Power from January 1, 2011 forward. 2010 Audit Report at 7-99 to 7-109.

Dr. Duann testified that the prices of RTD transportation services are based on the costs of providing the service as specified in the May 1986 Barge Transportation Agreement. Those costs include a return, initially set at 9.21% per annum, on the net investment in the RTD by IMPC. RTD's net investment base consists primarily of a working capital requirement and real property and personal property taxes. The working capital requirement in turn equals 0.125 (i.e., 1/8) of the amount of annual net expenses. 2010 Audit Report at 7-105. Thus, a very significant portion of the capital cost charged by RTD is related to the RTD working

capital requirement. The auditors were critical of this approach used by RTD, and they recommended that AEP be required to support its assumption that RTD has a significant cash working capital requirement.

Dr. Duann testified that the proposed exclusion of the working capital requirement of RTD is reasonable and consistent with current regulatory practice in Ohio. First, there remains the absence of any supporting information similar to a lead-lag study. Dr. Duann was not aware of any additional information or documentation provided by AEP to substantiate RTD's significant cash working capital requirement. Dr. Duann also believed that the removal of costs associated with RTD's cash working capital requirement should be applicable to the 2010 FAC period, rather than from only January 1, 2011 forward as recommended by the auditors. He recommended that an updated amount, a confidential number he provided in his confidential testimony, should be removed from Ohio Power's 2010 FAC costs. OCC Ex. 1 at 9.

OPAE supports the auditors' recommendation as well as the additional recommendation of OCC witness Duann that the updated amount for RTD's cash working capital requirement as included in Dr. Duann's confidential testimony should be removed from Ohio Power's 2010 FAC costs. OCC Ex. 1, Page 9, Lines 6-7. The Commission should adopt these recommendations.

III. Ohio Power Company's 2010 FAC costs should be reduced by \$16.1 million to account for actual annual financing costs of Ohio Power's deferred fuel expenses in 2010.

Dr. Duann also proposed a \$16.1 million reduction to Ohio Power's 2010 FAC costs to account for the actual annual financing cost of deferred fuel expenses incurred by Ohio Power in 2010. This adjustment is based, in part, on the auditors' recommendation that AEP should re-examine whether the

Commission-authorized gross-of-tax Weighted Average Cost of Capital (“WACC”) for debt and common equity should be applied to what investors actually financed of the fuel cost under-recovery balances. This would be the deferred fuel amounts recorded in Account 1823144 less the directly related credit balance Accumulated Deferred Income Taxes (“ADIT”)-Other for deferred fuel recorded in Account 283. 2010 Audit Report at 1-10.

The auditors recommended that AEP should address the income tax savings related to the under-recovered FAC balances and how these income tax savings provide non-investor supplied capital that is financing a portion of the deferred fuel balances that have been recorded in Account 1823144. The auditors recommended that AEP should specifically address the related credit-balance ADIT that is recorded in Account 283, ADIT-Other, for tax savings-based financing that is directly related to the under-recovered FAC balances. 2010 Audit Report at 1-10.

In short, the auditors contend that the ADIT balance related to deferred fuel costs is a source of non-investor supplied cost-free capital that has been used to finance part of the FAC deferral balance. As the auditors stated, if the ADIT balance related to Ohio Power’s FAC under-recovered balances is not considered, or deducted somewhere else, ratepayers would be over-paying carrying costs by paying for carrying costs on the portion of the deferred fuel balance that has been financed by tax savings, i.e., on the portion not financed with investor-supplied capital. Given that the ADIT related to the under-recovered fuel balances is not being recognized somewhere else in the ratemaking process, the pre-tax WACC should be applied to the under-recovered fuel balances that is net of the related credit balance ADIT, not to the gross under-recovered balances. 2010 Audit Report at 7-83.

The Commission Staff has also recommended that an ADIT balance should have been reflected as a reduction to the principal of deferred fuel balance for purposes of calculating the carrying cost. OCC Ex. 1 at 11. Dr. Duann agreed that utility investors should receive compensation only for the funds they provided. Because Ohio Power did not use its own funds to finance a portion of the FAC deferral balance, Ohio Power should not be reimbursed in the form of carrying costs on the financing costs it did not incur. OCC Ex. 1 at 11-12.

Dr. Duann calculated the 2010 average monthly balance of ADIT for deferred fuel expenses to be \$143.1 million for Ohio Power based on the average of its beginning and ending ADIT balances. Based on Ohio Power's average annual WACC of 11.26%, he calculated that approximately \$16.1 million (\$16,116,440) of the 2010 carrying costs of the FAC deferral balances should not be charged to Ohio Power's customers. Therefore, he recommended that the Commission reduce Ohio Power's 2010 FAC costs by \$16.1 million to account for the reduction in the annual financing costs of deferred fuel expenses. OCC Ex. 1 at 134.

The Commission has addressed the issues related to the carrying costs of fuel cost deferrals and found that the carrying charge on fuel cost deferral balances should be calculated without an adjustment for ADIT. OCC Ex. 1 at 13. However, the issue of ADIT and its treatment for FAC purposes is now on appeal to the Ohio Supreme Court. Tr. 159. Dr. Duann testified that the calculation of carrying charges without an adjustment of ADIT balances would allow Ohio Power to collect more than its actual carrying costs for the fuel cost deferrals from its customers. The Commission should adopt the proposed regulatory remedy of offsetting the FAC deferral balance by the ADIT balance when calculating the carrying costs of FAC deferrals in these proceedings. OCC Ex. 1 at 14.

Accumulated deferred taxes are funding sources that are not supplied by investors. These funds are not included in rate base in typical cost-based rate settings, and the utility and its shareholders do not earn a return on these funds. Moreover, offsetting the FAC deferral balance by the ADIT balance when calculating the carrying cost of FAC deferrals does not reduce the principal amount of under-collected 2010 fuel costs. The actual deferred fuel costs incurred will still be collected from customers. The remedy also does not reduce the WACC used in calculating the carrying costs. The only effect of the proposed remedy is to have an accurate calculation of the actual 2010 carrying charges incurred by Ohio Power on the full amount of the under-collected FAC balances.

The carrying cost calculation should recognize the tax savings that accrued to Ohio Power as a result of the ADIT directly related to the under-collected fuel balances. Ohio Power will still collect its incurred fuel costs and its incurred financing costs from customers. OCC Ex. 1 at 16. In short, given that the FAC is a cost-based regulatory mechanism, customers should not be required to pay Ohio Power a return on investment on funds that were not provided by investors.

Ohio Power may collect from customers the incurred fuel costs and carrying costs, but no more. The Commission should reduce Ohio Power's 2010 FAC costs by \$16.1 million to account for the reduction in the actual annual financing cost of deferred fuel expenses.

IV. Conclusion

The Commission should adopt the recommendations of the 2010 Audit Report. In addition, the Commission should adopt the further recommendations of OCC witness Duann. The RTD cash working capital requirement should be

excluded from 2010 fuel costs. Moreover, Ohio Power's 2010 FAC costs should be reduced by \$16.1 million to account for the actual annual financing cost of deferred fuel expenses incurred by Ohio Power in 2010.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Post-Hearing Brief was served electronically upon the following parties identified below in these cases on this 8th day of January 2013.

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Summary: Brief electronically filed by Colleen L Mooney on behalf of Ohio Partners for Affordable Energy