

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)	
Ohio Power Company to Update)	Case No. 13-1201-EL-RDR
the Energy Efficiency and)	
Peak Demand Reduction Rider.)	

In the Matter of the Application of)	
Ohio Power Company to Update)	Case No. 12-1557-EL-RDR
the Energy Efficiency and)	
Peak Demand Reduction Rider.)	

**OHIO POWER COMPANY’S MEMORANDUM CONTRA THE SECOND
APPLICATION FOR REHEARING FILED BY THE OFFICE OF THE OHIO
CONSUMERS’ COUNSEL**

I. INTRODUCTION

On August 29, 2014, the Office of the Ohio Consumers’ Counsel (“OCC”) filed a Second Application for Rehearing (“OCC’s Second AFR”) in these dockets. OCC requests rehearing of the Public Utilities Commission of Ohio’s (“Commission”) July 30, 2014, Finding and Order (“Order”). OCC argues that the Order is unjust, unreasonable and unlawful because: 1) the Order failed to confirm the Commission’s adoption of Staff’s recommendation for a financial audit of Ohio Power Company’s (“AEP Ohio” or the “Company”) Energy Efficiency and Peak Demand Reduction (“EE/PDR”) rider and failed to specify that the audit should include verification of the calculations used to derive shared savings (OCC’s Second AFR at 4); 2) the Order approved updated EE/PDR rates prior to the completion of the financial audit (OCC’s Second AFR at 6); and 3) the Order failed to specify that the updated rider rates be collected subject to refund (OCC AFR at 7). OCC’s Second AFR raises the same arguments as its August 1, 2014 application for rehearing. As discussed below and in AEP Ohio’s memorandum contra OCC’s earlier rehearing request, OCC’s grounds for rehearing should be denied.

II. ARGUMENT

It is clear that the Commission's July 2, 2014 Finding and Order in these proceedings adopted Staff's recommendation for a financial audit of the rider. There was no indication in the Commission's Order that the adopted recommendation for a financial audit of the rider be overturned. Accordingly, there was no need for the Commission to reaffirm its finding in this regard in its July 30, 2014 Order. In addition, OCC argues that the Order failed to specifically require that the financial audit of the rider should include verification of the methodology for calculating and amount of shared savings (OCC's Second AFR at 5). But the parameters and process of the financial audit will likely be addressed in the subsequent entry, as the Commission stated in its July 2, 2014 Finding and Order (at Finding 14). OCC's first ground for rehearing is, therefore, unnecessary and premature and should be denied.

OCC next argues that the Order was improper because it approved the updated EE/PDR rates before a financial audit is conducted (OCC's Second AFR at 6). Contrary to OCC's argument, the possibility that a financial audit of the EE/PDR rider may result in an adjustment does not make the rates approved in the Order unjust, unreasonable or unlawful. It is unnecessary to hold the approved rates in abeyance until the completion of the financial audit because any approved financial recommendation resulting from the audit can be addressed through an adjustment that will be reflected in subsequent EE/PDR rider rates. The EE/PDR rider rates are being collected subject to reconciliation based on the outcome of the financial audit.

The Staff has already reviewed the substance of the Company's filing and specifically determined that only a financial audit was needed:

The Staff has reviewed AEP Ohio's filing updates to its EE/PDR riders, for rider effective dates from March 2009 through May 2013. Based on Staff's review, it appears that the Company has followed all applicable Commission directives in its calculation of the EE/PDR rider rates. This includes compliance with Staff's recommendations regarding the net lost distribution revenues incurred after December 31, 2010. Lost distribution revenue for both operating companies have been excluded from the final 2009-2011 rider true-up amount, which comprises a part of the latest comprehensive updates proposed for the rider rates. The latest updates to the rider rates also include costs associated with the IRP-D, which the Commission found as reasonable in being recovered under the EE/PDR rider.

Staff finds that the procedure followed by AEP Ohio in calculating the comprehensive updates to its EE/PDR rider rates is consistent with the 2009 portfolio approvals and 2012 portfolio approvals, as well as the Commission's approvals in other cases relevant to the EE/PDR riders. However, the actual costs and the justification of their inclusion in the rider for cost recovery are beyond the scope of the Staff's review. Because of this, and because of the significance of the EE/PDR riders as a part of the Company's rates, Staff recommends that procedures be established to conduct financial audits of the Company's EE/PDR riders.

Staff Review and Recommendation (June 5, 2014) at 9 (Emphasis added).

A financial audit is limited to an accounting review and confirmation of the costs being incurred and accounted for, as well as a confirmation that the rider rate calculated and allocated costs properly for recovery from retail customers. While the financial audit process remains pending, the Company continues to recover its incurred costs. If a financial audit recommendation is ultimately approved by the Commission, a subsequent adjustment will be made to the costs incurred during the audit period under review. While AEP Ohio may challenge the appropriateness of a financial recommendation, it is committed to ensuring that customers pay no more than the actual costs incurred for the EE/PDR programs – this commitment is evidenced by AEP Ohio's recent identification and subsequent correction of a miscalculation in the proposed rider rate. For these reasons, OCC's rehearing request on this issue should be denied.

As an alternative to its second ground for rehearing, OCC argues that the Order should have at least approved the updated EE/PDR rates subject to refund. Here again OCC seeks to restrict AEP Ohio's recovery of actual costs incurred on the chance that a financial audit could result in a subsequent adjustment to the costs recovered under the rider. As discussed above, the fact that such a possibility exists does not make the rates approved in the Order unjust or unreasonable. Further, OCC's support for its contention that the EE/PDR rider rates should be approved subject to refund is misplaced. And the concept of a rate being subject to refund generally is a broader concept than being subject to reconciliation based on a financial audit. Specifically, in both cases cited by OCC (OCC's Second AFR at 7-9) rates were being established in the context of a base rate proceeding, where the rates established would remain in place until the next base rate proceeding – which would occur at the earliest three years later under the current SSO approval cycle. By contrast, the rates charged under AEP Ohio's EE/PDR rider are reviewed every year. Annual review of the rates charged under the rider, as well as the additional review through a financial audit of the actual costs incurred, ensures that the EE/PDR rates can be frequently adjusted to recover only actual costs incurred. The fact that AEP Ohio's EE/PDR rider rates are updated annually and subject to reconciliation through a financial audit nullifies any concern that customers would pay more than the actual costs incurred for the EE/PDR programs. Thus, approving the rates subject to refund is unnecessary, and OCC's second ground for rehearing should be denied.

III. CONCLUSION

Contrary to OCC's contention, it was unnecessary for the Order to restate the findings of the Commission's July 2 Finding and Order. Moreover, the July 2 order indicates that a subsequent entry will set forth the parameters of the forthcoming financial audit; OCC's request

to include such detail in the Order should be denied. Second, it was not unjust, unreasonable or unlawful for the Order to approve the updated rates prior to the completion of the financial audit. The possibility that a financial audit may result in a future adjustment to costs recovered through the rider does not make the rates approved in the Order unjust, unreasonable or unlawful. Finally, ordering that the rates be subject to refund is likewise unnecessary because annual review of the EE/PDR rider, as well as the additional review through a financial audit, ensures that the Company is appropriately recovering only the actual costs incurred. In substance, the Order properly found that the EE/PDR rates proposed by AEP Ohio were not unjust or unreasonable and should be approved. This finding should not be disturbed on rehearing. The Commission should find that each of OCCs grounds for rehearing should be denied.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing was served on the persons stated below via electronic mail on this 5th day of September, 2014.

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Summary: Memorandum Contra The Office of Consumers' Counsel's Second Application for Rehearing electronically filed by Mr. Yazen Alami on behalf of Ohio Power Company