

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of )  
Columbus Southern Power Company to ) Case No. 11-2768-EL-RDR  
Update the Energy Efficiency and Peak )  
Demand Reduction Rider. )

In the matter of the Application of Ohio )  
Power Company to Update the Energy ) Case No. 11-2769-EL-RDR  
Efficiency and Peak Demand Reduction )  
Rider. )

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

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

SECOND ENTRY ON REHEARING

The Commission finds:

- (1) Ohio Power Company d/b/a AEP Ohio (AEP Ohio or the Company) is a public utility as defined in R.C. 4905.02 and an electric utility as defined in R.C. 4928.01(A)(11), and, as such, is subject to the jurisdiction of this Commission.
- (2) On April 29, 2011, in Case No. 11-2768-EL-RDR, et al., AEP Ohio filed an application to adjust its energy efficiency and peak demand reduction (EE/PDR) rider rates.
- (3) On May 15, 2012, in Case No. 12-1557-EL-RDR (2012 EE/PDR Case), AEP Ohio filed an application to update its EE/PDR rider, with supporting calculations, including the final true-up for program costs incurred from 2009 through 2011.
- (4) On May 15, 2013, in Case No. 13-1201-EL-RDR (2013 EE/PDR Case), AEP Ohio filed an application seeking authority to

implement and true up the EE/PDR rider. AEP Ohio proposed a comprehensive update to the EE/PDR rider to encompass its actual expenditures for 2009 through 2011.

- (5) By Finding and Order issued on July 2, 2014, in the above-captioned proceedings, the Commission approved AEP Ohio's application to update its EE/PDR rider rates, as filed in the *2013 EE/PDR Case*. The Commission also stated that, consistent with Staff's recommendation, a request for proposal (RFP) will be issued by subsequent entry in order to acquire audit services for a financial audit of AEP Ohio's EE/PDR rider.
- (6) On July 15, 2014, AEP Ohio filed, in the *2013 EE/PDR Case*, proposed revised tariffs, in light of a recently discovered formulaic error in the EE/PDR rider rates contained in Schedule 1 of the application filed by the Company in the *2013 EE/PDR Case*. AEP Ohio explained that it had corrected the error, which resulted in lower rates than those approved on July 2, 2014.
- (7) On July 30, 2014, in the above-captioned cases, the Commission issued a Finding and Order approving AEP Ohio's revised tariffs, as filed on July 15, 2014, to take effect with the first billing cycle in August 2014.
- (8) R.C. 4903.10 states that any party who has entered an appearance in a Commission proceeding may apply for a rehearing with respect to any matters determined therein by filing an application within 30 days after the entry of the order upon the Commission's journal.
- (9) On August 1, 2014, the Office of the Ohio Consumers' Counsel (OCC) filed an application for rehearing of the Commission's Finding and Order issued on July 2, 2014. AEP Ohio filed a memorandum contra OCC's application for rehearing on August 11, 2014.
- (10) By Entry on Rehearing issued on August 27, 2014, the Commission granted the application for rehearing filed by OCC for further consideration of the matters specified in the application for rehearing.

- (11) On August 29, 2014, OCC filed an application for rehearing of the Commission's Finding and Order issued on July 30, 2014. AEP Ohio filed a memorandum contra OCC's application for rehearing on September 5, 2014.
- (12) In OCC's application for rehearing filed on August 1, 2014, which pertains to the Commission's July 2, 2014 Finding and Order, OCC raises three grounds for rehearing. In OCC's application for rehearing filed on August 29, 2014, in response to the Commission's July 30, 2014 Finding and Order, OCC again raises three grounds for rehearing. As some of the grounds for rehearing overlap, the Commission will address OCC's applications for rehearing concurrently.
- (13) In its first ground for rehearing of the July 2, 2014 Finding and Order and its second ground for rehearing of the July 30, 2014 Finding and Order, OCC argues that the Commission erred when it granted AEP Ohio's request to increase its EE/PDR rider rates and thereby allowed the Company to charge the new rates to customers before the completion of the financial audit of the EE/PDR rider ordered by the Commission. OCC points out that it is possible that the financial audit may result in a need to adjust AEP Ohio's EE/PDR rider rates, particularly given that the Company already discovered a substantial miscalculation in its application, and in light of the magnitude of the rate increase as well as the complexity and recent changes in the Company's corporate structure and overall rates. OCC concludes that the increase in AEP Ohio's EE/PDR rider rates should be held in abeyance until the financial audit is complete.
- (14) In response to OCC's position, AEP Ohio asserts that it is unnecessary to hold the approved EE/PDR rider rates in abeyance, because any adopted financial recommendation resulting from the audit can be addressed through an adjustment that will be reflected in subsequent rates. AEP Ohio acknowledges that the EE/PDR rider rates are being collected subject to reconciliation based on the outcome of the financial audit, which is similar in function to the financial audit of the Company's fuel adjustment clause mechanism and consistent with the Company's expectation

of how the financial audit of the EE/PDR rider will operate. AEP Ohio also asserts that the possibility that the financial audit of the EE/PDR rider may result in an adjustment does not render the approved rates unjust, unreasonable, or unlawful.

- (15) The Commission finds no merit in OCC's argument that the EE/PDR rider rate increase should be held in abeyance pending the outcome of the ordered financial audit. As noted in the July 2, 2014 Finding and Order, Staff concluded, following its review of AEP Ohio's EE/PDR applications in the *2012 EE/PDR Case* and the *2013 EE/PDR Case*, that the Company followed all of the Commission's applicable directives in the calculation of the proposed EE/PDR rider rates. As further noted, because Staff did not conduct a review of the actual costs included in AEP Ohio's EE/PDR rider, Staff recommended that a process be established to conduct financial audits of the rider, including an initial financial audit to be completed by an independent third party, under Staff's direction, for the period of January 2011 through December 2013. The Commission, therefore, stated that, consistent with Staff's recommendation, an RFP would be issued by subsequent entry for the purpose of acquiring audit services for completion of the financial audit of AEP Ohio's EE/PDR rider. Staff did not recommend that the EE/PDR rider rate increase be held in abeyance until the financial audit is completed and, accordingly, the Commission did not find it necessary or appropriate to impose such a requirement. We also point out that neither OCC nor any other party filed comments or objections with respect to AEP Ohio's EE/PDR application, as permitted under Ohio Adm.Code 4901:1-39-07(B). Although OCC now offers its opinions for the Commission's consideration, we find that the July 2, 2014 Finding and Order was reasonable and lawful in approving the proposed EE/PDR rider rate increase, while also adopting Staff's recommendation regarding the implementation of a financial audit process. To the extent that it is necessary to do so, the Commission clarifies that, as AEP Ohio acknowledges, the Company's EE/PDR rider rates are subject to reconciliation based on the outcome of the financial audit. In combination with the review of the EE/PDR rider already completed by Staff, we

find that adequate measures are in place to ensure that customers pay only the actual costs incurred by AEP Ohio for its EE/PDR programs. OCC's applications for rehearing on this issue should, therefore, be denied.

- (16) In its second ground for rehearing of the July 2, 2014 Finding and Order and its third ground for rehearing of the July 30, 2014 Finding and Order, OCC asserts, as an alternative to its primary argument addressed above, that the Commission erred when it granted AEP Ohio's request to increase its EE/PDR rider rates without requiring that the new rates be subject to refund. OCC maintains that the approved EE/PDR rider rates should be subject to refund, in order to protect customers from any future claim by AEP Ohio that it cannot be ordered to issue a refund to customers, even if the Company is directed to do so following the Commission-ordered financial audit. OCC notes that, in other proceedings, AEP Ohio has claimed that there is no mechanism under Ohio law that permits the retroactive refund of an over-collection from customers. OCC asserts that, if the EE/PDR rider rates are subject to refund, AEP Ohio's customers will be protected, in the event that the independent auditor determines that the rates were miscalculated or the result of improper accounting.
- (17) AEP Ohio replies that OCC seeks to restrict the Company's recovery of actual incurred costs based on the possibility that the financial audit may result in a subsequent adjustment to the costs recovered through the EE/PDR rider. AEP Ohio reiterates that the fact that such a possibility exists does not mean that the approved rates are unjust or unreasonable. According to AEP Ohio, approval of the EE/PDR rider rates subject to refund is unnecessary, given that the rates are updated annually and subject to reconciliation through the financial audit, which the Company believes should nullify any concern that customers will pay more than the actual costs incurred for the EE/PDR programs.
- (18) *The Commission finds that OCC's request that the EE/PDR rider rates be subject to refund is unnecessary under the circumstances. Consistent with our adoption of Staff's*

recommendation that a financial audit process be established with respect to AEP Ohio's EE/PDR rider, the Company's EE/PDR rider rates will be subject to adjustment as a result of the financial audit proceedings. Accordingly, the Commission finds that OCC's applications for rehearing on this issue should be denied.

- (19) In its third ground for rehearing of the July 2, 2014 Finding and Order and its first ground for rehearing of the July 30, 2014 Finding and Order, OCC contends that the Commission erred when it did not specify that the financial audit of the EE/PDR rider should include verification of the calculations used to derive the shared savings from the EE/PDR programs. Specifically, OCC asserts that the Commission should require that the auditor review the accuracy of avoided cost values and the calculation methodology for deriving shared savings amounts, including a review of the resulting shared savings to be collected from customers based upon the calculation methodology.
- (20) AEP Ohio responds that OCC's concern is premature. AEP Ohio points out that the parameters, process, and other details of the financial audit will likely be addressed by the Commission in the subsequent entry issuing the RFP.
- (21) As the Commission stated in the July 2, 2014 Finding and Order, an RFP will be issued by subsequent entry to solicit services for the initial financial audit of AEP Ohio's EE/PDR rider. Consistent with the Commission's practice with respect to external audits, the scope of the financial audit of the EE/PDR rider and other details pertaining to the audit will be set forth in the RFP. Therefore, we find that OCC's applications for rehearing on this issue are premature and should be denied.
- (22) In its first ground for rehearing of the July 30, 2014 Finding and Order, OCC also contends that the Commission erred when it failed to confirm that the July 2, 2014 Finding and Order remains in effect. Specifically, OCC argues that, to the extent that the July 30, 2014 Finding and Order completely supersedes the July 2, 2014 Finding and Order, the Commission erred by failing to require the financial audit

recommended by Staff and ordered by the Commission in the July 2, 2014 Finding and Order. OCC urges the Commission to confirm the directives in its July 2, 2014 Finding and Order and clarify that there will be a financial audit, which will include a review of the shared savings mechanism.

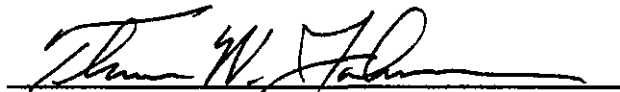
- (23) In response, AEP Ohio argues that there was no need for the Commission, in the July 30, 2014 Finding and Order, to reaffirm its earlier adoption of Staff's recommendation regarding the financial audit of the EE/PDR rider. Further, AEP Ohio points out that there was no indication in the July 30, 2014 Finding and Order that the Commission intended to overturn its adoption of Staff's recommendation.
- (24) The Commission finds no merit in OCC's argument. In the July 30, 2014 Finding and Order, we noted that AEP Ohio had recently discovered a formulaic error in the EE/PDR rider rates contained in Schedule 1 of the application filed by the Company in the *2013 EE/PDR Case*. Following AEP Ohio's discovery and correction of the error, the Commission approved the Company's proposed revised tariffs, which resulted in lower rates than those approved in the July 2, 2014 Finding and Order. The Commission does not believe that it was necessary to confirm any of our prior directives in the July 2, 2014 Finding and Order. The July 30, 2014 Finding and Order is abundantly clear that the sole purpose and intention of the order was to approve AEP Ohio's proposed revised tariffs. Nothing in the July 30, 2014 Finding and Order states or even remotely suggests that it was intended to supersede the July 2, 2014 Finding and Order, despite OCC's apparent interpretation. Accordingly, the Commission's adoption, in the July 2, 2014 Finding and Order, of Staff's recommendation regarding a financial audit process for the EE/PDR rider remains in effect and OCC's application for rehearing on this issue should be denied.

It is, therefore,

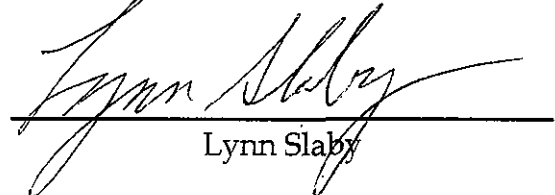
ORDERED, That the applications for rehearing filed by OCC on August 1, 2014, and August 29, 2014, be denied. It is, further,

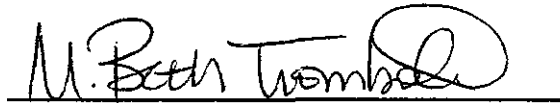
ORDERED, That a copy of this Second Entry on Rehearing be served upon each party of record in these cases.

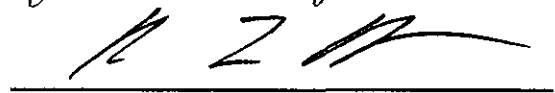
THE PUBLIC UTILITIES COMMISSION OF OHIO

  
Thomas W. Johnson, Chairman

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Steven D. Lesser

  
Lynn Slaby

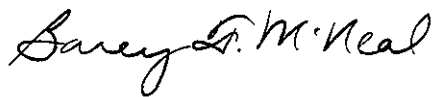
  
M. Beth Trombold

  
Asim Z. Haque

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**SEP 17 2014**

  
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Barcy F. McNeal  
Secretary

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Secretary