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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

PUCO

In the Matter of the Application of)
Columbus Southern Power Company)
and Ohio Power Company for Approval) Case No. 06-1153-EL-UNC
of Their Plan to Provide Additional)
Options for Customer Participation in the)
Electric Market.)

COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S
REPLY COMMENTS

On September 22, 2006, Columbus Southern Power Company and Ohio Power Company (collectively AEP Ohio) filed their Plan to Provide Additional Options for Customer Participation in the Electric Market (the Plan). The Plan was filed in response to the Commission's August 9, 2006 Entry in Case No. 04-169-EL-UNC.

On December 13, 2006, the Commission issued an Entry providing for the filing of comments and reply comments on January 12, 2007 and January 22, 2007, respectively. The *comment period* was established "to assist the Commission in its review of AEP-Ohio's proposed plan"

Initial comments have been filed by Ohio Partners for Affordable Energy (OPAE), the Ohio Consumers' Counsel (OCC), Industrial Energy Users-Ohio (IEU), Buckeye Energy Brokers (Buckeye) and the Commission's Staff (Staff).

The general theme of the comments is that there is skepticism regarding whether a Competitive Bid Process (CBP) will result in generation rate options for customers that are more attractive than AEP Ohio's generation rates established in the Commission-approved Rate

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Stabilization Plan. (See IEU's comments, pp. 3, 4; Staff comments, p. 3 – "Finding a CRES supplier who can beat AEP's RSP price will in Staff's opinion be difficult."; OPAE comments, p. 7 – "OPAE is skeptical that the competitive bidding process for conventional power is of any benefit to customers."). OCC, the party that argued on appeal that a CBP was required, now states "A SSO competitive bid should not be conducted merely for the sake of conducting one." (OCC comments, p. 3). OCC goes on to suggest that the Commission "conduct a cost-benefit analysis of any potential SSO bid process to determine whether conducting that process is in the best interest of customers." (*Id.*).

The comments also focus on AEP Ohio's recovery of its costs of implementing a CBP. Staff appropriately suggests that a CBP should be implemented in a manner which minimizes costs. (Staff comments, p. 3). IEU suggests that the costs should be assumed by customers and CRES providers who actually participate in the CBP. If that approach is rejected, then industrial customers should assume only those costs which are specifically associated with activities aimed directly at those customers. IEU's next preferred cost allocation is a per customer basis rather than volumetric basis. (IEU comments, p. 6). OPAE suggests that AEP Ohio should only be permitted to recover the costs associated with the CBP through a distribution rate case (OPAE comments, p. 6).

Finally, OPAE's and OCC's comments have a decidedly "green" hue to them. In fact, despite the fact that AEP Ohio consulted with OCC on the development of its September 22, 2006 proposal, OCC now suggests that the CBP only include a "green" product.¹

AEP Ohio's Reply Comments

AEP Ohio shares the skepticism of the comments regarding the value of a CBP. Nonetheless, it has submitted a proposal that, if implemented, will put that skepticism to the test.

¹ Staff believes a "green" option could be a more economical approach to a CBP. (Staff comments, p. 4).

AEP Ohio is not averse to a narrowing of the CBP to focus solely on “green” power. AEP Ohio, however, has concerns with OCC’s proposal. OCC would have AEP Ohio purchase about 100,000 MWhrs of REC’s without any indication if customers would subscribe to that level of activity.² If the REC’s are under-subscribed, AEP Ohio is left to resell the unused REC’s back into the market. (OCC Attachment 1, page 1, ¶5). If the market price increases after the acquisition of the REC’s, the gain would be AEP Ohio’s to keep. Of course, if the market prices were to fall, the loss would be AEP Ohio’s to bear. AEP Ohio believes, however, that any loss or gain should be passed on to customers.

Another shortcoming of OCC’s proposal is that it contemplates AEP Ohio’s recovery of its administrative costs, as well as the cost of customer education and marketing, by including them in the cost to customers of the REC’s. Implicit in OCC’s proposal is that if there is little customer interest in buying REC’s AEP Ohio will not recover its costs. This is unacceptable to AEP Ohio.

AEP Ohio consulted with OCC in developing the proposal that was submitted on September 22, 2006. Now, OCC would have AEP Ohio jettison that proposal in favor of a vastly different approach—an approach which unacceptably exposes AEP Ohio to potential losses. AEP Ohio rejects OPAE’s contention that the CBP-related costs should be collected in a future distribution rate case. There is no question that the costs AEP Ohio will incur are incremental costs. Letters to customers, an independent monitor, if needed, and other similar costs must be recoverable contemporaneously with the implementation of the CBP. In this regard, while there

² AEP Ohio does not accept OCC’s characterization of a REC as the equivalent of actual power. AEP Ohio’s reference to MW hrs of REC’s is made simply to describe OCC’s own characterization of its proposal.

are any number of ways to allocate the costs for recovery from customers and/or winning bidders, the options presented by IEU are worthy of the Commission's consideration.³

Additional Reply Comments

The Staff recommends that AEP Ohio work with the Staff to draft customer information documents in a manner which minimizes customer confusion. Staff also expressed its desire to participate in the resolution of certain issues, such as how a lottery would be structured if customer subscription exceeds the power bid in response to AEP Ohio's Request for Proposals.⁴ AEP Ohio agrees that Staff's involvement in these matters is important and would welcome the Staff's input.

OPAE raised an issue concerning PIPP customers' eligibility to participate in whatever CBP is implemented. AEP Ohio is unclear why this is an issue since, as stated in the September 22, 2006 proposal, all customers would be eligible to participate in AEP Ohio's proposed CBP.

Buckeye complains that the proposed CBP will not produce true market prices. Whether that is accurate or not, the Commission need only review the comments of IEU concerning potential price increases in other states when the expiration of rate caps is coupled with a CBP. Whatever price Buckeye might have in mind when it refers to a true market price is unlikely to be embraced by AEP Ohio's customers. Buckeye discusses two other issues in its comments: the customer/supplier needs more definition for the process of customers switching to a different supplier and that interested parties should get ready for "complete deregulation." As noted earlier, AEP Ohio's CBP proposal does not contemplate that customers who subscribe to

³ Another issue associated with a "green" focus is how "green" is defined. OCC's one-paragraph definition (on page 4 of its Attachment) is considerably less detailed than OPAE's proposed definition (OPAE comments, p. 3). The Green-e National Standard definition proposed by OPAE runs on for several pages. While perhaps not a major issue, an acceptable definition would need to be resolved as well.

⁴ In discussing the lottery issue, the Staff mentions customers being switched to CRES suppliers. (Staff comments, p. 4). Under AEP Ohio's CBP proposal, customers would continue to be customers of AEP Ohio. They would not switch to a CRES provider.

purchase power that is available through the CBP would switch to a CRES provider. Therefore, whatever Buckeye's concern is with the customer/supplier contracts, it is not relevant to this proceeding. Similarly, while it is important to be thinking about the next step after AEP Ohio's RSP, this proceeding is not the forum for those issues.

Conclusion

AEP Ohio remains ready to work with the Staff and other interested parties to implement a CBP which is easily understood by customers, involves a minimum of expense and has the best chance of being successful.

Respectfully submitted,



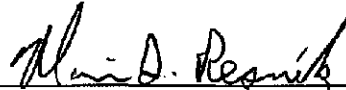
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CERTIFICATE OF SERVICE

I hereby certify that a copy of Columbus Southern Power Company's and Ohio Power Company's Reply Comments was served by regular mail on all parties listed below, on this 22nd day of January, 2007.



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