

## BEFORE

## THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of )  
 Columbus Southern Power Company to )  
 Adjust Its Power Acquisition Rider ) Case No. 07-333-EL-UNC  
 Pursuant to Its Post-Market Development )  
 Period Rate Stabilization Plan. )

FINDING AND ORDER

The Commission finds:

- (1) On February 9, 2004, Columbus Southern Power Company (CSP) and Ohio Power Company (jointly AEP-Ohio) filed an application with the Commission for approval of a rate stabilization plan (RSP) to continue to allow the competitive electric market to develop beyond the market development period approved in the companies' electric transition plan cases. *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Approval of a Post-Market Development Period Rate Stabilization Plan*, Case No. 04-169-EL-UNC (RSP Case). The proposed RSP provided for increases in the rates customers pay for generation service through 2008, and allowed the companies to request limited adjustments to the generation service rates, beyond those specified in the RSP, for increased expenditures related to certain activities.
- (2) By Opinion and Order issued January 26, 2005, in the RSP Case, the Commission approved AEP-Ohio's RSP application, including the provision permitting the companies to request limited adjustments to the generation service rates, which were effectively capped at four percent. As approved by the Commission, the RSP provided that a hearing would be held on such limited adjustments to the generation service rates and established a 90-day time frame, after which the proposed increase would become effective on an interim basis until the Commission's final order is implemented.
- (3) By order issued November 9, 2005, in Case No. 05-765-EL-UNC (05-765), *In the Matter of the Transfer of Monongahela Power Company's Certified Territory in Ohio to the Columbus Southern*

**This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business.**  
 Technician 76 Date Processed JUN 27 2007

*Power Company*, the Commission, among other things, approved Monongahela Power Company's (Mon Power's) voluntary transfer of its Ohio certified territory to CSP. In addition, the Commission found that this approval of Mon Power's Ohio certified territory to CSP is the type of administrative order contemplated under CSP's RSP that would result in consideration of an additional generation rate increase. The Commission also found that the evidence in 05-765 showed that CSP does not have the generation capacity to serve both its current customers and the former Mon Power customers. Therefore, the Commission approved CSP's Power Acquisition Rider (PAR) stating that it is a reasonable mechanism to recover the incremental fuel costs of providing service to the former Mon Power customers, subject to the four percent limit established in the *RSP Case*. The Commission approved CSP's initial PAR price of \$.0007945/kilowatt hour (kWh) for January 2006, through May 2007, and authorized CSP to issue a request for proposal (RFP) to determine the PAR price for June 2007, through December 2008. CSP proposed a true-up to the initial PAR period, which would be reflected in the second PAR period ending December 2008, and any over- or under-recovery experienced by CSP at the end of December 2008, would be trued-up through CSP's distribution tariffs at that time.

- (4) On March 28, 2007, as corrected on March 30, 2007, CSP filed an application in this case, Case No. 07-333-EL-UNC, stating that the company conducted an RFP and requesting approval of its proposed adjustment to the PAR for the period June 2007 through December 2008.
- (5) By entry issued in this case on May 4, 2007, Ohio Energy Group (OEG), Industrial Energy Users-Ohio (IEU), Ohio Partners for Affordable Energy (OPAE), the Office of the Ohio Consumers' Counsel (OCC), Appalachian People's Action Coalition (APAC), and the Ohio Hospital Association (OHA) were granted intervention in this case.
- (6) In a separate entry issued May 4, 2007, the attorney examiner established the procedural schedule in this case requiring each party to file a list by May 9, 2007 of the witnesses it intended to present, along with a description of the subject matter the witness would address, or a statement that they would not be

presenting any witnesses, and file testimony by May 18, 2007. In addition, the hearing was scheduled to commence on June 5, 2007. On May 9, 2007, CSP filed a letter stating that it would present two witnesses in support of its application; IEU-Ohio filed a letter stating that it intended to provide a witness on the issue of the PAR cost allocation methodology; OCC filed stating that it would not present a direct witness, but requesting the right to file rebuttal testimony; and the remaining parties filed stating that they would not be presenting witnesses at the hearing.

- (7) The hearing commenced, as scheduled, on June 5, 2007. CSP filed its brief on June 12, 2007. Briefs were filed on June 14, 2007, by OEG, IEU, OCC, and jointly by OPAE and APAC.
- (8) In support of its application, CSP's submits that:
  - (a) On February 1, 2007, American Electric Power Service Corporation (AEPSC), as an agent for CSP, issued an RFP seeking 100 percent of CSP's full wholesale electrical power requirements to serve the former Mon Power load, including capacity, energy, certain ancillary services, congestion, and transmission losses (Co. Ex. 1 at 3).
  - (b) AEPSC distributed the RFP via direct electronic mail messages, news releases, and publicly posted the RFP on AEP-Ohio's web site (*Id.* at 3-4).
  - (c) On March 5, 2007, 44 pricing proposals were received and the bidders consisted of a wide-range of market participants, including traditional vertically-integrated utilities, investment banks, and power marketers (*Id.* at 4).
  - (d) Of the pricing proposals received, CSP selected the five lowest bids and executed full requirements service agreements for five tranches, totaling 100 percent of the full requirements, to a total of three qualified sellers at their offer prices. The average of the five awarded bids was \$55.88/megawatt hour (MWh).

The 39 pricing proposals not awarded ranged from \$56.14/MWh to \$62.29/MWh (*Id.* at 5).

- (e) CSP's revenue requirement for the PAR period June 2007 through December 2008 is \$69,086,108. This revenue requirement is calculated by adding the projected under-recovery from the initial PAR period of January 2006 through May 2007 (\$9,040,827), plus the under-recovery from June 1, 2007, through December 2007 (\$22,348,041), plus the projected under-recovery for calendar year 2008 (\$37,697,240) (Co. Ex. 2 at App. B).
- (f) Based on the average awarded bid prices of \$55.88/MWh and the true-up estimate as of May 31, 2007, for the initial PAR period, CSP proposes that the PAR for the second period beginning with service rendered on or after July 1, 2007<sup>1</sup>, be \$.0019354/kWh (*Id.* at 5).

On brief, CSP notes that the \$69,086,108 revenue requirement is not in dispute by the parties who participated in the hearing. CSP states that the only issue disputed at the hearing was the method for allocating the recovery of the revenue requirement among the different customer classes. CSP explains that, in its application, CSP presented an allocation methodology on a kWh basis and, at the hearing, OCC's witness favored the kWh allocation method, while IEU's witness favored an allocation based on a uniform percentage. CSP states that there is merit to both cost allocation methodologies and CSP does not take a position as to which methodology the Commission should select (CSP Br. at 2-3).

- (9) IEU advocates that the more appropriate methodology for distributing and collecting the PAR costs in this case is a uniform percentage of generation allocation methodology, rather than the per kWh methodology contained in CSP's proposal. IEU avers that allocating the PAR based on kWh

---

<sup>1</sup> At the hearing, CSP's witness testified that the \$.0019354/kWh rate would need to be adjusted upward, because the rate could not go into effect until July 1, 2007, rather than June 1, 2007, due to the procedural schedule in this case (Co. Ex. 2 at 5). On brief, CSP clarifies that the rate will not be increased even though it can not go into effect until July 1, 2007, but any under-collection associated with the delay in this case will be reflected in the second true-up which will occur after December 31, 2008 (CSP Br. at 2).

usage will: result in a misallocation of the PAR costs among customers; make revenue collection and bills more volatile; and make it harder for customers to understand and predict their bills. Furthermore, according to IEU, allocating the PAR on a kWh basis is inconsistent with the purpose of the PAR, which was to compensate CSP for the difference between CSP's cost of purchasing power to serve the former Mon Power customers and what CSP collects for generation from the former Mon Power customers. IEU points out that CSP's base generation rates include both energy and demand costs; however, a kWh allocation does not recognize the demand component of the generation costs and does not properly allocate the costs among customers (IEU Ex. 1 at 3-5). IEU explains that a sizable portion of the base generation charges are determined on demand charges, rather than just on energy; therefore, an allocation based on kWh produces a significantly higher PAR rate for larger, more energy intensive customers, than if the PAR was applied using a percentage of base generation charges (IEU Ex. 1 at 5 and Br. at 7). IEU asserts that, if the base generation rates were increased by a uniform percentage for all customers, the relationship between the demand and energy costs that was used to design the generation rates would be preserved (IEU Ex. 1 at 5).

In further support of its position, IEU points out that CSP has not presented a cost of service study to support the way that the PAR costs should be allocated among the customer classes. According to IEU, the Commission has previously determined that, in the absence of a cost of service study, it is appropriate to allocate costs on a uniform percentage basis. See *In the Matter of the Application of Ohio Bell Telephone Company*, Case No. 83-300-TP-AIR, Opinion and Order (January 31, 1984).

Furthermore, IEU points out that the proposed PAR has increased nearly two and one-half times over the initial PAR rate and, if the kWh-based methodology is continued in the second PAR, the misallocation of PAR costs that resulted from the initial PAR will be exacerbated even further (*Id.* at 3-4). IEU maintains that the switch to a uniform percentage allocation of base generation rates will better reflect cost causation principles without producing any unreasonable electric bill outcomes for smaller customers, and will maintain rate stability for customers (*Id.* at 5-6). According to IEU, the percentage

allocation method it recommends will cause 99.9 percent of CSP's residential customers to see a monthly PAR rate higher by between two cents and 23 cents (IEU Ex. 1 at 6 and Br. at 8). IEU reasons that collecting the PAR on a percentage basis would be consistent with other charges CSP collects for generation-related service, including the automatic three percent generation rate increase authorized in the *RSP Case* (IEU Ex. 1 at 7).

IEU submits that the PAR originally proposed in 05-765 is significantly different than the PAR proposed in this case (IEU Br. at 12). IEU points out that, in 05-765, the Commission approved a per kWh collection methodology, with little or no discussion, stating that the PAR is a reasonable mechanism to recover the "incremental fuel costs" of providing service to the former Mon Power customers (IEU Ex. 1 at 3 and Br. at 13). IEU submits that the RFP issued in this case indicates that fixed costs, such as capacity, are components of the supply for which CSP is seeking recovery. Therefore, since fixed costs are not part of "incremental fuel costs," a kWh allocation methodology is both inappropriate and inconsistent with the Commission's decision in 05-765 (IEU Br. at 13).

- (10) OEG supports the percentage allocation methodology advocated by IEU asserting that the PAR should be allocated to customers on the same basis as the costs are incurred. OEG explains that the power acquisition costs that are recovered through the PAR have both energy and demand components in them. Therefore, OEG submits that it is unreasonable to collect 100 percent of the PAR through a straight kWh "energy" charge, because such allocation would over-recover PAR costs from high-load factor customers, while under-recovering PAR costs from customers with lower-load factors (OEG Br. at 1-2).
- (11) OCC supports the kWh allocation contained in CSP's proposal arguing that the purpose of this proceeding is simply to ensure that CSP reasonably incurred the additional generation costs associated with the PAR and that CSP did not exceed the four percent annual increase approved in the *RSP Case*. Therefore, OCC maintains that the Commission should disregard IEU's proposed change to the recovery mechanism (OCC Br. at 1, 10). According to OCC, the PAR and the kWh cost recovery mechanism were already approved in 05-765, where the

Commission found that they meet the standard for reasonable rates under Section 4905.48, Revised Code, and support the public interest in accordance with Section 4933.85, Revised Code (*Id.* at 1, 5). OCC submits that IEU is attempting to reopen the 05-765 case by proposing that the Commission redesign the recovery mechanism approved in that case (*Id.* at 2). Even if it were appropriate to reconsider the recovery mechanism in this case, OCC argues that the percentage method proposed by IEU would lead to unreasonable rates for CSP's residential customers and would not be in the public interest (*Id.* at 13).

According to OCC, CSP's RFP in this case was structured to procure 100 percent of the load necessary to supply the former Mon Power customers at a single price in dollars per MWh. OCC argues that the RFP was for full wholesale power requirements, not for energy and demand; therefore, IEU's proposed recovery is inappropriate, because it is inconsistent with the wholesale price CSP obtained through the RFP (OCC Ex. 1 at 4-5 and Br. at 7, 11). OCC asserts that the RFP required bidders to furnish a price per MWh and this MWh wholesale rate is best translated into a retail rate through a kWh rate (OCC Ex. 1 at 5 and Br. at 7). OCC submits that, if IEU's methodology is used, the PAR would be 24 percent higher than it would be under the kWh allocation methodology and residential customers would experience rate shock during high use months (OCC Ex. 1 at 5-6 and Br. at 8, 11; Tr. II at 26). Finally, OCC points out that, in 05-765, Mon Power agreed to terminate all litigation resulting from its seeking to recover wholesale power costs for generation services to large commercial and industrial customers, which resulted in a \$10 million litigation termination rider that was passed on to all customers, including residential customers who had nothing to do with the litigation. According to OCC, residential customers are already paying more than they should for the transfer of Mon Power to CSP, and IEU's proposal in this case would reallocate the costs again and increase the burden on residential customers while lessening the impact of the rider to the large commercial and industrial customers (OCC Ex. 1 at 6-7 and Br. at 9).

- (12) OPAE and APAC agree with OCC and submit that the PAR should be allocated to all customers on a per kWh basis

because it is equitable for all customers and is based on precedent. According to OPAE and APAC, CSP's RFP called for full requirements power necessary to serve the former Mon Power load. Full requirements power contracts are not priced on a demand and energy basis because they are full requirements contracts. OPAE and APAC submit that these types of contracts are well established and, consistent with contractual approaches to the buying and selling of power, common in the industry. OPAE and APAC explain that, under the contract CSP pays a MWh charge and then passes it on to customers on a per kWh basis. The cost caused by the combined load and the components of the load cannot be segmented, according to OPAE and APAC (OPAE/APAC Br. at 2-4).

- (13) Initially, the Commission would note that, the parties in this case are not disputing CSP's implementation of the PAR for the second period, June 1, 2007, through December 2008; the \$69,086,108 revenue requirement proposed by CSP; or the reasonableness of the RFP process and bid selection. The only contentious issue in this case pertains to which methodology should be utilized for allocating the revenue requirement among CSP's customer classes. IEU and OEG advocate for a uniform percentage of generation revenue allocation, and OCC, OPAE, and APAC advocate for a kWh allocation.

OCC believes that the kWh allocation methodology was already approved by the Commission in 05-765. We disagree that an allocation methodology was approved for the period June 2007 through December 2008. As pointed out by IEU, no party raised the issue of how the PAR should be allocated among the customer classes in 05-765. CSP's proposal in 05-765 set forth an allocation methodology based on kWh for the initial period of the PAR from January 1, 2006 through May 2007, and the Commission approved CSP's overall proposal. Furthermore, in 05-765, CSP proposed that the PAR for the second period, June 1, 2007, through December 2008, be derived from an RFP; however, no rates or allocation methodology were presented in the 05-765 case with regard to the second PAR period. Therefore, the Commission fails to see how OCC could ascertain that the Commission approved an allocation methodology for the second period when no such methodology was presented in 05-765.



Contrary to OCC's view, our review of CSP's PAR proposal in this case is not limited to whether or not the RFP price is appropriate and whether the four percent annual increase ceiling approved in the *RSP Case* is adhered to. The purpose behind the hearing and 90-day approval process set forth in the *RSP Case* is so that the Commission and all interested stakeholders have an opportunity to consider all aspects of the company's proposal, including how the additional generation costs will be passed on to CSP's customers. The Commission would be remiss if we simply rubberstamped CSP's proposal without reviewing the entire proposal and taking into consideration all of the facts in the record.

IEU points out that the PAR derives from the fact that CSP is experiencing a revenue shortfall because the power acquisition costs to serve former Mon Power customers are greater than CSP's generation rates. Therefore, since generation rates include both an energy and demand component, and a kWh rate does not include a demand component, IEU maintains that a percentage allocation is appropriate so that demand is taken into consideration in allocating the PAR. OCC disagrees with IEU stating rather broadly that utilizing IEU's percentage allocation will result in unreasonable rates for CSP's residential customers and will be contrary to the public interest. OEG was, perhaps, the most persuasive in its simple statement that collecting 100 percent of the PAR from a straight kWh "energy" charge would be unreasonable because CSP will over-recover from the high-load factor customers and under-recover from the low-load factor customers. This is the first time the Commission has been faced with the question of what is a reasonable allocation of CSP's PAR. Contrary to OCC's assertion, the facts in this case do not reflect that the utilization of a percentage allocation will lead to rate shock and unreasonable rates for residential customers. Rather, the facts show that, if the percentage allocation is utilized, 99.9 percent of the residential customers will pay, on the average, between two and 23 cents more for the PAR per month than they would pay under a kWh allocation methodology. Given the limited record presented by the parties and, in the absence of a cost of service study, the Commission finds that allocating the PAR costs based on the uniform percentage of base generation revenue is appropriate. The Commission believes that allocating the PAR based on a methodology that considers both

demand and energy is reasonable and supports the public interest by properly allocating the costs based on the cost to serve the customer. Furthermore, the Commission notes that this allocation methodology is consistent with the three percent annual generation increase approved in the *RSP Case*.

Accordingly, the Commission concludes that CSP should allocate the PAR for the second period, June 1, 2007, through December 2008, based on a uniform percentage of base generation revenue.

- (14) Upon consideration of CSP's application, the Commission finds that the RFP process and the bid selection process were reasonable, and that the projected revenue requirement of \$69,086,108 for the period June 1, 2007, through December 2008 is appropriate, subject to true-up.<sup>2</sup> Accordingly, the Commission concludes that CSP's application is approved subject to the modification set forth in Finding (13) and that CSP should work with the Commission's staff to ensure the proposed tariff language for the second period of the PAR utilizes a percentage of base generation revenue allocation methodology. CSP should then file the revised tariff pages.

It is, therefore,

ORDERED, That CSP's application, subject to the modification set forth in Finding (13), is approved. It is, further,

ORDERED, That CSP is authorized to file in final form four complete copies of tariffs consistent with this Finding and Order. CSP shall file one copy in its TRF docket (or may make such filing electronically as directed in Case No. 06-800-AU-WVR) and one copy in this case docket. The remaining two copies shall be designated for distribution to the Rates and Tariffs, Energy and Water Division of the Commission's Utilities Department. It is, further,

---

<sup>2</sup> The Commission notes that CSP witness Roush testified that an issue has been raised concerning the potential for double recovery of certain costs between this proceeding and future proceedings involving CSP's transmission cost recovery rider (TCRR). CSP agreed to attempt to identify the costs that would be recovered in the PAR and drop those costs from potential recovery in the TCRR (Tr. I at 32-33). The Commission agrees that CSP should work with the Commission staff to identify and eliminate any double recovery in the TCRR.


ORDERED, That the effective date of the new tariffs shall be no sooner than July 1, 2007. The PAR shall apply on a bills-rendered basis beginning with the first billing cycle in July 2007. It is, further,

ORDERED, That CSP shall notify all affected customers via a bill message or bill insert within 30 days of the effective date of the tariffs. A copy of the customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability and Service Analysis Division, at least ten days prior to its distribution to customers. It is, further,

ORDERED, That nothing in this Finding and Order shall be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

ORDERED, That copies of this Finding and Order be served upon all parties of record.

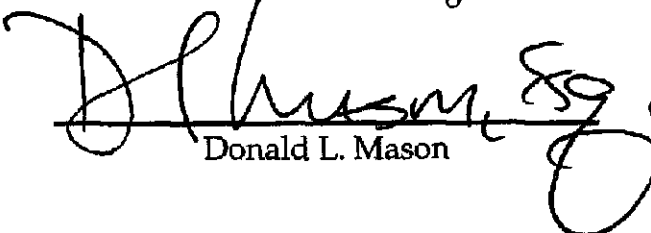
THE PUBLIC UTILITIES COMMISSION OF OHIO

  
Alan R. Schriber, Chairman

  
Paul A. Centolella

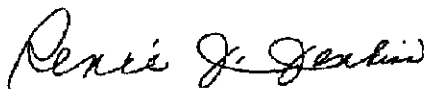
  
Ronda Hartman Fergus

  
Valerie A. Lemmie

  
Donald L. Mason

CMTP/GNS/vrm

Entered in the Journal  
JUN 27 2007



Renee J. Jenkins  
Secretary