

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The)
Columbus Southern Power Company and)
Ohio Power Company to Adjust the)
Transmission Component of the)
Companies' Standard Service Tariffs to) Case No. 05-1194-EL-UNC
Reflect the Applicable FERC-Approved)
Charges or Rates Related to Open Access)
Transmission, Net Congestion and)
Ancillary Services.)

In the Matter of the Application of)
Columbus Southern Power Company and)
Ohio Power Company to Adjust the)
Transmission Component of Each) Case No. 06-273-EL-UNC
Company's Standard Service Tariff to)
Combine That Component With its)
Transmission Cost Recovery Rider.)

In the Matter of the Application of)
Columbus Southern Power Company and)
Ohio Power Company to Adjust Each) Case No. 06-1294-EL-UNC
Company's Transmission Cost Recovery)
Rider.)

ENTRY

The Commission finds:

- (1) The Commission approved Columbus Southern Power Company's (CSP) and Ohio Power Company's (OP) (jointly AEP-Ohio or Companies) application to adjust their respective transmission charges in Case No. Case No. 04-169-EL-UNC (RSP Case), *In the Matter of the Application of The Columbus Southern Power Company and Ohio Power Company for Approval of a Post-Market Development Period Rate Stabilization Plan*, by Order issued January 26, 2005.
- (2) On December 14, 2005, in Case No. 05-1194-EL-UNC (05-1194), the Commission approved AEP-Ohio's proposed Transmission Cost Recovery Rider (TCRR) to adjust the transmission

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component of CSP's and OP's standard service tariffs to reflect open access rates and charges, net congestion, and ancillary services rates approved by the Federal Energy Regulatory Commission (FERC). As approved by the Commission, the rider includes an annual true-up process and authorization for the Companies to implement over- and under-recovery accounting for any differences between the revenues collected and the actual costs recorded by the Companies. The December 14, 2005 Order also directed the Companies to file an update of the TCRR each November, to become effective January 1 of the following year, to incorporate the under- or over-recovery of the rider into the subsequent calendar year's TCRR. The Commission also granted the Companies' request for authority to file to adjust the TCRR to minimize the anticipated level of under- or over-recovery. Further, the Commission directed the Staff to perform a full and complete audit of the costs included in the TCRR to update and true-up the rider.

- (3) On February 3, 2006, in Case No. 06-273-EL-UNC (06-273), AEP-Ohio filed an application to request approval to adjust the transmission components of their standard service tariffs to: (a) reflect changes in the Companies' transmission rates which were approved by FERC on December 20, 2005, in Docket No. ER05-751; (b) combine the transmission component of each company's standard service tariff with its TCRR approved by this Commission; (c) make further adjustments to its current TCRR; (d) defer the costs assessed as a result of FERC Docket No. ER05-751, beginning April 1, 2006 until such time as this Commission approves the current application and the Companies can begin billing the new TCRR rates; and (e) adjust the rates in August 2006, or the first day of the month following the month in which the Companies' Wyoming-Jackson's Ferry line enters service, pursuant to the settlement agreement approved in FERC Docket ER05-751.
- (4) The Office of the Ohio Consumers' Counsel (OCC), the Industrial Energy Users-Ohio (IEU) and Ohio Partners for Affordable Energy (OPAE) each filed for intervention in 06-273.
- (5) By Order issued in 06-273 on May 26, 2006, as clarified by entry nunc pro tunc issued June 14, 2006, the Commission found that AEP-Ohio's application appeared to be just, reasonable and in

compliance with the Commission's order in the Companies' RSP case, with two exceptions. The application did not properly reflect the adjusted rates approved by FERC as part of the settlement agreement in Docket No. ER05-751. The Commission also found AEP-Ohio's inclusion of certain ancillary service costs attributable to the East Central Reliability Council was unreasonable and should be deleted. Further, the Commission denied OCC's, IEU's and OP&E's request for intervention. The May 26, 2006 Order also expounded upon the filing requirements for the Staff's biennial audit of AEP-Ohio's TCRR.

- (6) On June 7, 2007, OCC filed a second motion to intervene in 06-273, on behalf of AEP-Ohio's residential customers and a motion to adjust the TCRR. As to the motion to intervene, OCC states that residential customers are not represented in this proceeding and the interest of residential customers may be adversely affected. Further, OCC states that granting its request for intervention will not unduly delay or prolong the processing of this case and that OCC will significantly contribute to the full development and equitable resolution of the factual issues raised. OCC's motion to adjust the TCRR is addressed in more detail in Finding (14) below.
- (7) AEP-Ohio filed a memorandum contra OCC's motion to intervene and to adjust the TCRR on June 22, 2007. The Companies raise several arguments in opposition to OCC's motion to adjust the TCRR and conclude that there is no basis for any adjustment to the TCRR at this time. Accordingly, AEP-Ohio requests that OCC's motion to intervene and to adjust the TCRR be denied.
- (8) On July 2, 2007, OCC filed a reply. OCC notes that AEP-Ohio did not dispute that OCC meets the statutory criteria for intervention or that OCC has a substantial interest in this matter.
- (9) OCC's motion to intervene in 06-273 is reasonable and should be granted to consider the comments raised.
- (10) On October 26, 2006, AEP-Ohio filed an application, docketed at Case No. 06-1294-EL-UNC (06-1294), to reduce OP's TCRR

by approximately 30 percent and to reduce CSP's TCRR by approximately 25 percent.

- (11) On December 19, 2006, in 06-1294, OCC filed a statement indicating that it did not intend to file comments regarding AEP-Ohio's October 26, 2006 TCRR application.
- (12) On December 20, 2006, the Staff filed its financial audit report in these matters. As part of the financial audit, Staff conducted an investigation to verify incurred and projected costs and the under/over collection of revenue, and to review sales volumes in the development of the Companies' projected TCRR rates.¹ Staff verified actual costs incurred, under- and over-collections for each month and that carrying charges were as determined in the Companies' last base rate proceeding. Based on the investigation, Staff recommended that AEP-Ohio's application to reduce its TCRR rates be approved.
- (13) Pursuant to the TCRR review process established in 05-1194 and further detailed in 06-273, Staff conducted the biennial audit of AEP-Ohio's transmission cost for compliance with the Commission's orders in 05-1194, 06-273, and 06-1294, to ensure that only applicable and appropriate costs are included in the TCRR and to determine whether the Companies' management and operating processes are minimizing transmission costs that are within the Companies' control. Staff filed its Report on the Biennial Review of Controllable Regional Transmission Organization Costs (Staff biennial report) on May 18, 2007. AEP-Ohio is a member of PJM Interconnection LLC (PJM), a regional transmission organization (RTO). Staff reviewed AEP-Ohio's cost for net congestion, regulation service, operating reserves, spinning reserves, reactive supply costs, synchronous condensing costs, blackstart service charges and demand side response program charges. Each cost is addressed below.
 - A: Net Congestion. When the transmission system is constrained in PJM, PJM generation units are dispatched out-of-merit, resulting in congestion costs/credits being assessed to AEP-Ohio. AEP-Ohio receives annual

¹ The Commission notes that although the financial audit report only references case no. 06-1294, the audit includes rates in effect as of January 1, 2006 through December 31, 2006 and projected rates to be effective January 1, 2007 through December 31, 2007. Thus, the financial review included rates approved in 05-1194 and 06-273 and rate projections in 06-1294.

financial transmission rights (FTRs), once each year, based on AEP-Ohio's peak demand for the previous year. The FTR revenues are available to offset congestion. Based on Staff's review of AEP-Ohio's FTRs and congestion costs and credits, for the year ended December 2006, Staff found that AEP-Ohio had a sufficient annual allocation of FTRs to effectively hedge the Companies' congestion costs to serve its native load customers in Ohio. In fact, Staff states that FTRs have generated surplus revenues for the Companies of approximately \$43 million for the nine months ended September 2006 which is incorporated into the TCRR rider and the benefit passed on to the Companies' retail customers.

Beginning June 2007, instead of FTRs, AEP-Ohio will be allocated Auction Revenue Rights (ARRs) and PJM will hold annual auctions. At the auction, AEP-Ohio may auction off their ARRs or convert the ARRs to FTRs and continue the company's current strategy. AEP-Ohio also has the option to receive the auction price for the ARRs, which could be higher or lower than the revenue received for the FTRs. Accordingly, retaining the ARRs would involve more risk for AEP-Ohio.

Staff notes that AEP-Ohio's FTR strategy has produced positive results thus far. Further, Staff recommends that AEP-Ohio continue to evaluate all of its options in the future and provide details of any analysis performed to conclude that the strategy followed produced optimal results.

- B: Regulation Service. As a member of PJM, AEP-Ohio must secure one percent of its daily peak load for regulation services. The Companies purchase regulation service in the regulation market rather than enter into a bilateral agreement for the service or through self-supply. Staff notes that AEP-Ohio continually monitors and analyzes its options for securing regulation service. In addition, pursuant to PJM guidelines, AEP-Ohio is required to bid its generation at cost-based rates. Therefore, when AEP-Ohio's cost of providing regulation service is higher than the market price, AEP-

Ohio receives the lower regulation market clearing price. Staff notes that AEP-Ohio's process for procuring regulation service appears to have resulted in the least costs for AEP-Ohio's retail customers. Accordingly, Staff recommends that the Companies continue to analyze the options for procuring regulation services and report to the Staff in the next biennial audit the options considered and provide an explanation why the option selected by the Companies were optimal at the time.

- C: Operating Reserves. When PJM determines that additional generation is necessary to ensure transmission system reliability, PJM will call upon certain generation facilities to start-up and operate. PJM pays each of the requested generation units. To fund this service, PJM allocates the day-ahead operating reserve costs to each load serving entity (LSE) proportionately by megawatts based on the LSE's cleared day-ahead demand bid. Thus, the Companies have no control over the amount of day-ahead operating reserve charges assessed by PJM.

LSEs are also allocated real-time operating reserve costs in proportion to the LSE's megawatt deviation from its day-ahead scheduled quantities. Thus, the more accurate the Companies' forecast of their needs, the fewer real-time charges the Companies will incur. Staff notes that the Companies have minimized their deviations between day-ahead and real-time to approximately 2.3 percent on average per month for the years 2005 and 2006. Staff observes that AEP is effectively minimizing its allocation of operating reserve costs and recommends that in future biennial audit review filings, the Companies continue to provide the information necessary for the Staff to monitor the magnitude of the Companies' deviation between day-ahead and real-time market operations.

- D: Spinning Reserves. AEP-Ohio must secure three percent of its daily peak load in spinning reserves. Like regulation service, AEP-Ohio has the option of purchasing spinning reserves in the market, entering

into a bilateral agreement or by self-supply. AEP-Ohio purchases the necessary spinning reserves on the PJM market. This option ensures the Companies that it is receiving the lower market price for spinning reserves when the market price is lower than AEP-Ohio's cost to self-supply spinning reserves. According to the Staff biennial report, by AEP-Ohio buying spinning reserves in the market, AEP-Ohio's native load customers are receiving spinning reserve service at the lowest possible costs. Staff believes AEP-Ohio's strategy of purchasing spinning reserve service from the market results in the least costs solution when the market price is lower than AEP-Ohio's cost-based offer. Staff recommends that the Companies continue to analyze the options available to secure spinning reserve service and report to the Staff, as a part of the next biennial report, the options the Companies considered and why the option(s) selected was the optimal option(s) at the time.

E: Other RTO costs. After thorough examination by the Staff, Staff has determined that certain costs are not within the Companies' control and, accordingly, are more appropriately included as a part of the financial audit of the TCRR review process in the future. Such costs include reactive supply costs, synchronous condensing costs, blackstart service charges and demand side response program charges. Reactive supply service, blackstart services and the demand side response program are services required by PJM and the associated charges to AEP-Ohio are determined pursuant to rates and tariffs approved by the FERC. Synchronous condensing costs is the fee all LSEs must pay PJM for providing spinning reserves, system reliability or reactive power. The charges for synchronous condensing services are allocated to all LSEs based on a load ratio share allocation method.

- (14) With regard to OCC's June 7, 2007 motion, OCC argues that CSP appears to be double recovering approximately \$200,000 in transmission costs in the TCRR that are also recovered in base

rates through the Power Acquisition Rider.² OCC requests that the Commission direct CSP to credit any "double recovery of transmission or transmission related costs to customers in its next TCRR filing." OCC argues that the burden of proving that the TCRR includes only FERC-approved costs rest with CSP.

- (15) In its reply filed June 22, 2007, AEP-Ohio responds that OCC has not identified the nature of any over-collection of transmission costs and argues that OCC has failed to demonstrate any basis for the Commission to act upon such claims in this docket.
- (16) The Commission notes, however, that as a part of the record in the Power Acquisition Case, CSP acknowledges that the company and Staff have identified approximately \$200,000 in ancillary transmission service costs included in the power acquisition rider that may also be included in the TCRR.³ More specifically, CSP witness Roush testified that in the request for proposal to serve former Monongahela Power Company customers, certain ancillary transmission costs were allocated to the winning supplier in the power supply agreement.⁴ Further, Mr. Roush explained that the TCRR rates approved by the Commission may have also included the same ancillary transmission costs.⁵ CSP states that the company will identify any duplicative transmission costs to be recovered through the power acquisition rider and delete such cost from the TCRR in a future TCRR filing.⁶
- (17) To allow interested stakeholders additional time to investigate the components of the transmission cost reflected in the power acquisition rider and the TCRR, the Commission finds it reasonable to address the issue as part of the financial audit in AEP-Ohio's next TCRR filing. AEP-Ohio's next TCRR is due

² The Commission approved the Power Acquisition Rider in Case 05-765-EL-UNC, *In the Matter of the Transfer of Monongahela Power Company's Certified Territory in Ohio to the Columbus Southern Power Company*, Opinion and Order issued November 9, 2005; and revised the Power Acquisition Rider rate in Case No. 07-333-EL-UNC, *In the Matter of the Columbus Southern Power Company's Application to Adjust Its Power Acquisition Rider Pursuant to Its Post-Market Development Period Rate Stabilization Plan* (Power Acquisition Case), Finding and Order issued June 27, 2007.

³ Power Acquisition Case, Tr. I at 12, 20-21, 28-29.

⁴ *Id.* at 25-27, 29.

⁵ *Id.*

⁶ *Id.* at 32-33.

on or about November 1, 2007. Accordingly, AEP-Ohio shall work with Commission Staff to determine the documentation necessary for Staff to investigate this issue and file such additional information and support documentation with its next TCRR update filing that specifies the cost components included in the TCRR as well as the power acquisition rider. AEP-Ohio shall also provide detailed support for any necessary adjustments to reflect the over-collection of costs for the period ending December 31, 2007, and details of how the costs are excluded from the rates to become effective January 1, 2008.

- (18) The Commission concludes that based on the audit findings, and subject to our discussion above, AEP-Ohio fairly determined and reasonably incurred the transmission costs reflected in the TCRR for the 12 months ended December 31, 2006. We further find that for the 12 months ended December 31, 2006, AEP-Ohio's practices and policies were reasonable and minimized controllable RTO costs.

It is, therefore,

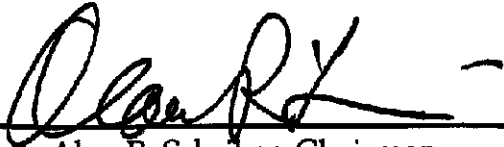
ORDERED, That OCC's request for intervention in 06-273 is granted. It is, further,

ORDERED, That AEP-Ohio's calculation of its TCRR for the biennial audit period ended December 31, 2006 is just and reasonable and consistent with the Commission's Orders, subject to finding (17) above. It is, further,

ORDERED, That, except as discussed above, AEP-Ohio fairly determined and reasonably incurred the transmission costs reflected in the TCRR for the 12 months ended December 31, 2006 and AEP-Ohio's practices and policies for the 12 months ended December 31, 2006 were reasonable and minimized controllable RTO costs. It is, further,

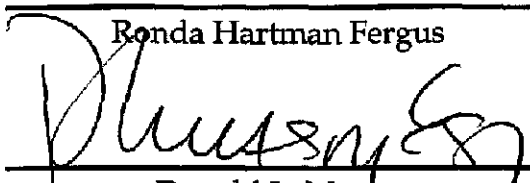
ORDERED, That a copy of this entry be served upon AEP-Ohio and its counsel and all other interested persons of record in this case.

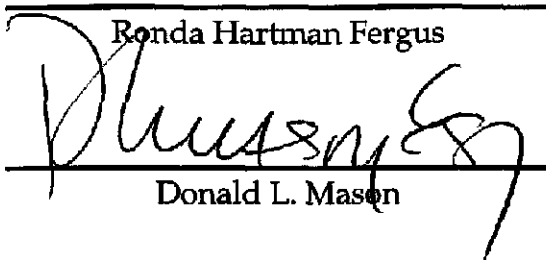
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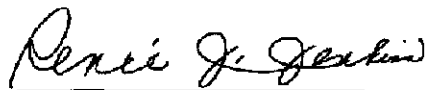

Ronda Hartman Fergus


Donald L. Mason

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Renee J. Jenkins
Secretary