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FILE

The Public Utilities Commission of Ohio

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December 8, 2008

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Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

RE: *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company to Update Each Company's Transmission Cost Recovery Rider, Case No. 08-1202-EL-UNC*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendation in response to the Commission's request that Staff examine the costs included in Columbus Southern Power Company's and Ohio Power Company's Transmission Cost Recovery Rider (TCRR).

Sincerely,

Jodi Bair

Jodi Bair
Director, Utilities Department
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

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Columbus Southern Power Company
Ohio Power Company
Case No. 08-1202-EL-UNC

SUMMARY

The Staff investigation determined that the costs included in the Transmission Cost Recovery Rider (TCRR) Application are FERC-approved regional transmission organization (RTO) or ancillary service cost. Columbus Southern Power Company (CSP) and Ohio Power Company (OPCO) are assessed these costs as a result of providing service to retail customers in Ohio. These costs vary monthly and are the result of an allocation of PJM costs based on CSP's and OPCO's proportional peak day usage.

In this proceeding, CSP's projected rates reflect $169.5 million of transmission costs plus a year-to-date under collection of $5.0 million. The total is $174.5 million. Last year's total projection was $179.6.

OPCO's projected rates reflect $194.9 million of transmission costs plus a year-to-date cost under collection of $ 7.8 million. The total is $202.7 million. Last year's total projection was $190.2 million.

INCURRED AND PROJECTED COSTS

The filing contains three components for each company. The first component is the projected cost for the recovery period January 2009 through December 2009. The second component is the under/over collection for the prior application period October 2007 through September 2008, including carrying costs. The third component is the kWh sales for the projected period used to design rates.

Exhibit 1 summarizes the projected revenue generated from current TCRR rates derived from the three cost components. Workpaper Exhibit No. 1, pages 1 through 4, shows the application of rates to kWh sales.

Exhibit 2 itemizes the cost by component for the projected test year. These costs are based on the actual costs incurred in the prior year. The exhibit also summarizes the prior year under/over-collection by comparing actual costs to the revenues collected through prior TCRR. Since the procedure was verified in the previous filing, Staff verified various months to confirm the methodology and calculations. Both were consistent with those utilized in the previous filing.

CARRYING COST CALCULATION

AEP Companies file a transmission rider annually. Included in the filing is a carrying cost calculation to compensate for the timing difference between the expense incurrence and the revenue recovery. The AEP companies utilize a carrying cost factor based on their overall rate of return which includes a return on equity, and a gross up for the income tax effect.

The AEP Companies are the only companies filing a transmission rider using the total rate of return, grossed-up for income taxes as their carrying cost rate. AEP Companies' recovery methodology was approved in the rate stabilization Case No. 04-169-EL-UNC. These plans end on December 30, 2008.

After that time, Staff recommends the AEP companies utilize the interest rate from their latest approved filings for their calculation of carrying cost. This methodology is similar to the methodology used by

other Ohio electric distribution utilities. The interest rate from the latest AEP Ohio Consolidated capital structure is 5.73% for CSP and 5.71% for OPCO.

TRANSMISSION LOSS CREDIT

Paragraph 10 of the application outlines AEP's proposal in regard to a component of the current Rider which is a credit against the cost of marginal losses. The Applicant is proposing to eliminate the credit in the Rider since it is proposing a Fuel Adjustment Clause (FAC) under its proposed Electric Security Plan (ESP). If the FAC is approved it will no longer be necessary to provide the credit in the TCRR. As a result, the proposed TCRR no longer includes the credit. Staff finds that as long as the FAC as proposed in the ESP is approved and effective on 1/1/09 the proposed rates in the TCRR are reasonable. However, if the FAC/ESP is not approved on 1/1/09 and the TCRR rates are approved as filed then an over recovery of transmission loss related costs will occur. If this occurs, Staff recommends that any over recovery of costs associated with this issue should be tracked and reconciled in the over/under recovery process in the applicant's next rider update.

BIENNIAL REVIEW OF CONTROLLABLE RTO COSTS

The October 31, 2008 filing included the required data for Staff to perform its biennial review of controllable RTO costs. This review is on-going and once the review is complete, Staff will update its report.

CONCLUSION

The Companies request that their proposed updated TCRR become effective on a "bills rendered basis," beginning on December 30, 2008 – the first day of the January 2009 billing cycle. The Staff recommends the Application be approved subject to the findings in this report.