

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)
Columbus Southern Power Company and)
Ohio Power Company for Authority to) Case No. 08-1301-EL-AAM
Modify Their Accounting Procedure for)
Certain Storm-Related Services Restoration)
Costs.)

FINDING AND ORDER

The Commission finds:

- (1) Columbus Southern Power Company (CSP), and Ohio Power (OP), (collectively, the Companies or AEP-Ohio) are Ohio corporations engaged in the business of providing electric service to customers in Ohio and, as such, are public utilities as defined by Sections 4905.02 and 4905.03 (A)(4), Revised Code.
- (2) On December 15, 2008, CSP and OP filed an application in this proceeding, seeking authority to defer a portion of their Operation and Maintenance (O&M) expenses in the aftermath of Hurricane Ike's destructive wind storm of September 14, 2008. The portion of the O&M expenses each Company proposes to defer is the amount by which the total O&M expenses associated with the Hurricane Ike-related service restoration expenses exceeds the three-year average service restoration O&M expenses associated with major storms. The Companies propose to defer these O&M expenses with carrying costs based on their respective weighted average cost of capital (WACC). For purposes of calculating their WACC rate, the Companies propose using actual average long-term debt costs, a 10.5 percent cost of equity, and a 50/50 capitalization ratio.
- (3) In support of the Companies' application, the Companies cite to the Commission's decision in the Companies' Rate Stabilization Plan (RSP),¹ the Commission's approval of the Companies'

¹ In the Matter of the Application of Columbus Southern Power Co. and Ohio Power Co. for Approval of a Post-Market Development Period Rate Stabilization Plan, Case No. 04-169-EL-UNC, Opinion and Order (January 26, 2005).

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Electric Transition Plan (ETP),² and the Commission's authorization to recover O&M expenses associated with extraordinary ice storms that occurred in December 2004 and January 2005.³ The application asserts that the present application is consistent with the Companies' application approved in Case No. 06-412-EL-UNC, which was approved pursuant to the Companies' RSP and ETP. The Companies state that they are not requesting, at this time, to commence recovery of the O&M expenses associated with repairing/replacing the distribution facilities damaged by Hurricane Ike. Rather, the Companies are seeking to defer the related O&M expenses, with carrying costs, for future recovery under their approved Rate Stabilization Plan from all customers, over a 12-month period, beginning at a date determined by the Commission in a future proceeding, but no later than the first billing cycle of January 2011. The application also proposes that if the Commission does not allow for such a deferral, with carrying costs, the Companies request authority to begin recovery of the O&M expenses over 12 months beginning with the first billing cycle of February 2009.

- (4) On December 16, 2008, the Industrial Energy Users-Ohio (IEU) moved to intervene in the proceeding and filed comments on the Companies' application. Although IEU is not opposed to AEP-Ohio's request to defer storm damage expenses that were authorized in the Companies' RSP and ETP, IEU is concerned with the Companies' proposal to calculate its carrying charges based on WACC. IEU contends that it is inappropriate to allow a carrying cost rate that contains an equity component. IEU also opposes the Companies' alternative proposal to recover O&M expenses over a 12-month period beginning in February 2009, arguing that AEP-Ohio's alternative request amounts to a distribution rate increase that must be considered under the ratemaking statutes. The Commission finds that IEU's request to intervene is reasonable and should be granted.

² *In the Matter of the Applications of Columbus Southern Power Co. and Ohio Power Co. for Approval of Their Electric Transition Plans and for Receipt of Transition Revenues*, Case Nos. 99-1729-EL-ETP and 99-1730-EL-ETP, Opinion and Order (September 28, 2000).

³ *In the Matter of the Application of Columbus Southern Power Co. and Ohio Power Co. to Implement Storm Related Service Restoration Cost Recovery Riders*, Case No. 06-412-EL-UNC, Finding and Order (August 9, 2006).

- (5) On December 18, 2008, the Ohio Consumers' Counsel (OCC) filed a motion to intervene in this case on behalf of the residential utility customers of the Companies. A revised motion was filed on December 19, 2008. OCC contends that the Companies' application, which provides no detail on the amount of expenses to be deferred or the amount to be recovered, should not be approved unless the Companies can meet their burden of proof that the cost recovery requested by the application is allowed under the terms of the Companies' rate plans and that the alleged costs are lawful, reasonable, and prudently incurred. OCC also objects to the Companies' proposed carrying charges and contends that the carrying charge should be set at the long-term cost of debt. The Commission finds that OCC's motion to intervene is reasonable and should be granted.
- (6) In a previous decision regarding the Companies' Transmission Cost Recovery Rider, the Commission rejected the Companies' requested carrying cost factor based on the Companies' overall rate of return, which included a return on equity and a gross up for the income tax effect. Instead, the Commission required the Companies, on a going forward basis, to utilize the interest rate that reflects the Companies' actual cost of debt when calculating carrying costs, which is 5.73 percent for CSP and 5.71 percent for OP.⁴
- (7) Similarly, in this proceeding, the Commission rejects a carrying cost calculation that contains an equity component. The Commission believes that the interest rate previously authorized in Case No. 08-1202-EL-UNC should be applicable for calculating carrying charges on all deferred amounts in this proceeding. This decision addresses the comments and concerns raised by IEU and OCC in their pleadings.
- (8) Accordingly, the Commission finds that the application seeking authority to modify the Companies' accounting procedures to defer incremental O&M expenses associated with the September 14, 2008 wind storm, with carrying costs, as modified herein, is reasonable and should be approved.

⁴ *In the Matter of the Application of Columbus Southern Power Co. and Ohio Power Co. to Adjust Each Company's Transmission Cost Recovery Rider, Case No. 08-1202-EL-UNC, Finding and Order (December 17, 2008).*

- (9) CSP and OP are directed to separately identify and record in a sub-account of Account 182, Other Regulatory Assets, all O&M costs to be deferred by CSP and OP.
- (10) The determination of the reasonableness of the deferred amounts and the recovery thereof will be examined and addressed in a future proceeding before the Commission. As the Supreme Court has previously held, deferrals do not constitute ratemaking. See *Elyria Foundry Co. v. Pub. Util. Comm.* (2007), 114 Ohio St.3d 305.

It is, therefore,

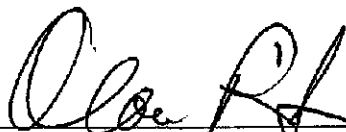
ORDERED, That the motions to intervene filed by IEU and OCC be granted. It is, further,

ORDERED, That the application by CSP and OP to modify accounting procedures to defer incremental O&M costs related to the September 14, 2008, wind storm service restoration expenses, with carrying costs, as set forth in findings (6) thru (9) is approved. It is, further,

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

ORDERED, That a copy of this finding and order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO



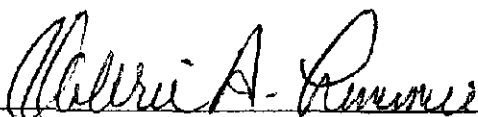
Alan R. Schriber, Chairman



Paul A. Centolella



Ronda Hartman Fergus



Valerie A. Lemmie

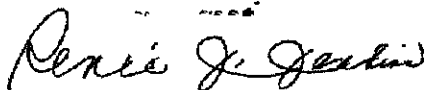


Cheryl L. Roberto

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Renee J. Jenkins
Secretary