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In the Matter of the Application of)
Columbus Southern Power Company for) Case No. 08-917-EL-SSO
Approval of its Electric Security Plan; an)
Amendment to its Corporate Separation)
Plan; and the Sale or Transfer of Certain)
Generation Assets.)

**REPLY TO AEP'S MEMORANDUM CONTRA
MOTION FOR REFUND AND MOTION FOR AEP TO CEASE AND DESIST
FUTURE COLLECTIONS FROM CUSTOMERS**

**THE OFFICE OF THE OHIO CONSUMERS' COUNSEL, THE OHIO
HOSPITAL ASSOCIATION, THE OHIO MANUFACTURERS' ASSOCIATION,
THE KROGER CO., AND THE OHIO ENERGY GROUP**

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The Companies claim that Movants' motions are premised upon an incorrect belief that they are collecting ESP rates that include delta revenues arising from the Ormet temporary special arrangement.¹ They claim there is nothing to refund, nor is there any action that the Companies should cease and desist.²

According to the Companies, Exhibit DMR-1 contains the Companies' proposed fuel adjustment clause ("FAC"), non-FAC, and other increases. On that exhibit, the amount of "Current Rates" reflects revenues, (within the line entitled "Other"), adjusted for, among other things, the expiration of the 2007-2008 Ormet special contract.³ In order to adjust the current rates revenues for the expiration of Ormet's 2007-2008 special contract discount, AEP added back the amount of annual revenue attributable to Ormet's discount. In the column entitled "Non-FAC" increase, the Companies then made an adjustment to reduce revenues to account for the fact that they would not be collecting these tariff rates from Ormet. In Mr. Roush's Exhibit DMR-2, page 8 of 8, the annual revenue attributable to Ormet paying tariff rates, instead of the 2008 discount, is approximately \$50 million. The end result of the Ormet adjustments on DMR-1 is to set ESP rates to non-Ormet customers at a higher level to compensate AEP for an Ormet \$50 million discount.

AEP's "Current Rates" revenue then becomes the baseline to which the percentage annual increase caps (either requested by the Companies or authorized by the

¹ Columbus Souther (sic) Power Company's and Ohio Power Company's Memorandum Contra Motion for Refund and Motion For AEP Ohio to Cease and Desist Future Collections from Customers at 2 (June 12, 2009).

² Id.

³ Although a footnote refers to "other" as including the effects of, among other things, expiring special contracts" it does not specifically delineate the Ormet contract, nor the "revenue reduction" associated with the contract.

Commission in the order) is applied to determine the total revenue increase that the Companies could collect through the non-FAC and FAC increases. The Companies state on page 4 of their Memorandum Contra that the corresponding compliance work papers show the same starting point – Current Rates revenue. Therefore, the Companies argue, the Commission’s authorized percentage annual increases, and the resulting total revenue increases, were applied to total Current Rates revenue, which reflected Ormet paying current tariff rates--not the lower special contract rates it did pay or is currently paying.

AEP further explains that its compliance work papers show that its tariffs accomplished the total revenue increases authorized through the following:

- FAC increases
- Two non-FAC increases
- POLR increases
- Distribution increases
- Ormet revenue and other revenue decreases

AEP states that the increases “were offset, by among other things, the expiration of the 2007-2008 Ormet special contract.”⁴ Through this offset (i.e., showing a decrease to Ormet revenue for its annual revenue discount) AEP is reflecting the expectation that it could not collect that additional tariff-based revenue from Ormet under the new ESP rates. Under this assumption, the reduction of the revenues available from Ormet (\$50 million) directly impacts the amount of revenue increase which non-Ormet customers must pay in order for AEP to collect the PUCO authorized percentage increase. By incorporating into proposed ESP rates a difference for the revenue not paid by Ormet,

⁴ Companies’ Memorandum Contra at 5.

AEP's methodology of designing rates assumes that in 2009 Ormet will not pay tariff rates, and that other customers should shoulder the entire revenue shortfall.

The Companies claim the Movants have confused the "revenue reduction" associated with the expiration of the Ormet special contract with the delta revenues from that contract. While AEP may technically be correct that the revenue reduction is not delta revenues, it is derived from the discount granted to Ormet, which is a direct component of the delta revenues created under the Ormet arrangement.

Additionally, the Commission did not specifically authorize or intend to authorize revenue increases on the basis of current rates adjusted for the revenues associated with the Ormet arrangement. There is nothing in the record to support or suggest that the Commission did so or intended to do so. The fact that "compliance work papers show the starting point for the rates consistent with adjustments for revenue attributable to Ormet's discount" is of little import. Such work papers were not part of the record in this proceeding, nor were they supplied to any party AT THE TIME OF THE TARIFF FILING, OR PRIOR TO THE TARIFFS BEING APPROVED, which approval was a mere matter of days. Nor do such work papers prove that the Commission ordered or intended to order such adjustments for Ormet to be incorporated into new ESP rates.

If the Commission permits the rate increases to be implemented based on compensating the Companies for reduced revenues collected under an Ormet arrangement, the Commission will have permitted AEP to collect de facto delta revenues from the Ormet contract. This occurs because the ESP rate encompasses compensating AEP (through increased rates collected from other customers) for revenues generated by tariff rates for Ormet—tariff rates that AEP assumed would not be paid by Ormet. The

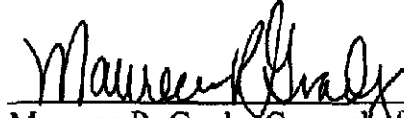
difference between tariff rates and what Ormet would pay under the special contract is classically the definition of delta revenues. So the ESP rates, because they compensate for the revenue deficiency, allow AEP to collect a component of delta revenues—revenues that reimburse AEP for the tariff rates presumed to be paid by Ormet. This occurs regardless of what the Commission has authorized the Companies to book as delta revenues, for accounting purposes, in the temporary arrangement case.

The Companies state that they are deferring the delta revenues according to the Commission's order in the temporary special arrangement case, and suggest that this is their sole means of addressing the Ormet issue. This appears to Movants to be a misstatement because, as discussed, all customers are compensating AEP (through the ESP rates) for millions of dollars of discounting of the rate that Ormet pays.

The Commission should, consistent with Movants' pleading, order AEP to cease and desist the collection through ESP rates because that collection is not authorized, nor was it intended to be authorized. Additionally, because what the Companies are doing equates to collecting delta revenues, and the Commission has not authorized delta revenues to be collected yet, the Commission should order a refund, as explained in Movants' original motions filed on June 5, 2009.


Respectfully submitted,

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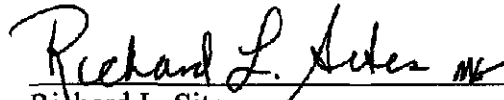


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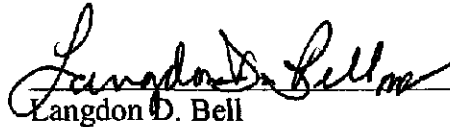


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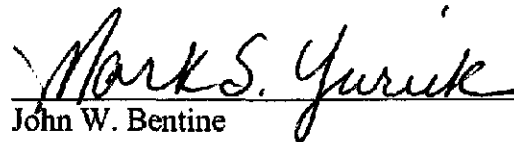
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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Reply was served by electronic service upon the following parties identified below (and provided electronically to the Attorney Examiners) this 17th day of June 2009.



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