

FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of the Ohio)
Department of Development for an Order)
Approving Adjustments to the Universal)
Service Fund Riders of Jurisdictional Ohio)
Electric Distribution Utilities.)

Case No. 08-658-EL-UNC

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JOINT MOTION OF
THE OHIO DEPARTMENT OF DEVELOPMENT,
COLUMBUS SOUTHERN POWER COMPANY,
AND
OHIO POWER COMPANY
FOR APPROVAL OF A SETTLEMENT AGREEMENT

The Ohio Department of Development ("ODOD"), Columbus Southern Power Company ("CSP"), and Ohio Power Company ("OPC") hereby move for an order approving the settlement agreement attached hereto as Exhibit A and closing the Notice of Intent phase of this proceeding as it relates to CSP and OPC for those reasons set forth in the accompanying memorandum in support.

WHEREFORE, ODOD, CSP, and OPC respectfully request that their motion be granted.

Respectfully submitted,



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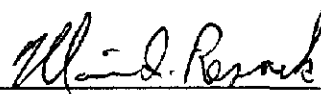
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MEMORANDUM IN SUPPORT OF
JOINT MOTION OF
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COLUMBUS SOUTHERN POWER COMPANY,
AND
OHIO POWER COMPANY
FOR APPROVAL OF A SETTLEMENT AGREEMENT

On June 2, 2008, the Ohio Department of Development (“ODOD”) filed a notice of its intent (“NOI”) to file its annual application for adjustments to the Universal Service Fund (“USF”) rider rates of the state’s jurisdictional electric distribution utilities (“EDUs”) in the above-captioned docket. The NOI set forth the revenue requirements and rate design methodology ODOD proposed to employ in preparing its 2008 application. The NOI also addressed the status of the independent third-party audits of the PIPP-related accounting and reporting practices of AEP’s Ohio operating companies, Columbus Southern Power Company (“CSP”) and Ohio Power Company (“OP”) (collectively, “AEP Ohio”), and Duke Energy Ohio (“Duke”) as provided in the stipulation adopted by the Commission in ODOD’s 2007 USF rider rate adjustment proceeding, Case No. 07-661-EL-UNC.¹

¹ Audits of the PIPP-related accounting and reporting practices of the other Ohio EDUs were conducted in connection with the NOI phase of Case No. 07-661-EL-UNC.

As described in the NOI, ODOD, in accordance with recommendation of the USF Rider Working Group (the "Working Group"), issued a request for proposals ("RFP") to perform the AEP Ohio and Duke audits. As a result of the RFP process, ODOD retained the accounting firm of Schneider Downs to perform an application of agreed-upon procedures ("AUP") to test the accuracy and timeliness of the PIPP-related accounting and reporting of AEP Ohio and Duke and to prepare reports of its findings ("AUP reports").² Although the audits were underway at the time the NOI was filed, Schneider Downs had not yet completed the AUP reports. Consequently, ODOD indicated in its June 2, 2008 NOI that it would file a supplement to the NOI ("Supplement") containing ODOD's proposals for addressing any issues identified by Schneider Downs once the AUP reports were completed.

As required by the stipulation in Case No. 07-661-EL-UNC, ODOD filed its application in this case on October 31, 2008. Consistent with its practice in its prior USF rate adjustment proceedings, ODOD filed an amended application on November 26, 2008, updating its test-period calculations to incorporate additional actual data that became available subsequent to the preparation of the initial application. On December 17, 2008, the Commission issued its opinion and order ("Order") adopting a joint stipulation and recommendation submitted at the December 8, 2008 hearing on the amended application and approving the USF rate adjustments proposed therein. As noted in the Order, the stipulation explained that, although the AUP reports had been issued and the Working Group had conducted its exit interview with the Schneider Downs' personnel involved, ODOD had not yet prepared the Supplement containing its conclusions regarding Schneider Downs' findings. Accordingly, the signatories to the

² Although ODOD and the parties have generally characterized the analysis performed by Schneider Downs as an "audit," it is understood that the AUP process is not, strictly speaking, an "audit," as that term is used in accounting parlance. Rather, the AUP process is designed to test the adequacy of the EDU's performance in specific identified areas through the use of sampling techniques. However, the terms are used interchangeably herein.

stipulation recommended that the Supplement remain on a separate procedural track from the amended application, and that any proposed USF rider rate adjustments to credit customers for any identified overpayments be addressed through a supplemental application in this case.

Order, 12-13. The stipulation further provided that the parties would propose a procedural schedule to deal with any issues raised by the Supplement. The Commission approved this proposed process in its Order. *Id.*

ODOD filed its Supplement to the NOI on April 15, 2009. The Schneider Downs' AUP reports for AEP Ohio and Duke were attached to the Supplement as Exhibits A and B, respectively. The Supplement set forth ODOD's conclusions with respect to the adequacy of the subject EDU's performance as measured by the application of each of the various procedures jointly developed by ODOD and Schneider Downs to test the accuracy and timeliness of EDU PIPP-related accounting and reporting. As explained in the Supplement, although Schneider Downs reported no exceptions in connection with its application of a number of the agreed-upon procedures, exceptions reported in connection with other procedures suggested that the subject EDUs' performance in certain areas during calendar years 2006 and 2007, the period covered by the review, was not satisfactory. In those instances, ODOD, after setting forth its conclusions regarding the results of the procedure in question, requested that the subject EDUs respond to the identified concerns.

Pursuant to the procedural schedule established by the attorney examiner's entry of April 29, 2009, AEP Ohio filed its response on May 4, 2009, and supplemented its response by submitting certain additional information on June 11, 2009. ODOD filed its reply to the AEP Ohio response on June 26, 2009. In its reply, ODOD indicated that, although the AEP Ohio responses adequately addressed certain of the concerns identified in the Supplement, issues

remained with respect to the results of several of the procedures reported by Schneider Downs.³ Accordingly, ODOD requested that the AEP Ohio provide a second response to address those concerns. AEP Ohio filed its additional responses on July 26, 2009.

The agreed-upon procedures performed by Schneider Downs were designed to test EDU performance in connection with three basic activities: (1) the EDU's processing of ODOD files identifying customers to be added to or dropped from the PIPP program; (2) the timeliness and accuracy of the EDU's monthly reporting and remittances to ODOD; and (3) the accuracy of the requests for reimbursement from the USF submitted by the EDUs to ODOD. An EDU's failure to perform satisfactorily in any of these areas could have cost consequences for the USF, which is funded by ratepayer dollars collected through the EDU's USF rider. Accordingly, ODOD examined the exceptions reported by Schneider Downs to determine if these exceptions were the product of systemic problems that could have had a material impact on the cost of PIPP previously recovered through AEP's USF rider, and, thus, would dictate an adjustment to the USF rider rate to credit customers for past overpayment. In addition, ODOD also reviewed the exceptions to determine if the ODOD-AEP Ohio interface is functioning as intended and to assure that AEP Ohio's PIPP-related reporting practices conformed to ODOD's expectations.

On September 30, 2009, ODOD convened a meeting of interested members of the Working Group to present its conclusions with respect to the AEP Ohio issues identified in the Supplement.⁴ ODOD reported that, based on its assessment of the responses and additional information provided by AEP, it had concluded that none of the exceptions reported by Schneider Downs had a material impact on the cost of PIPP previously recovered from

³ The Office of the Ohio Consumers' Counsel ("OCC"), also filed a reply to the AEP and Duke responses on June 26, 2009. The OCC reply raised many of the same issues identified by ODOD in its reply.

⁴ In addition to ODOD and AEP personnel, representatives of OCC, Ohio Partners for Affordable Energy, and Industrial Energy Users-Ohio attended the meeting.

ratepayers, and that, therefore, no adjustment to the AEP Ohio USF rider rate to credit customers for past overpayments was required. Further, with respect to the PIPP-related practices identified in the Supplement as problematic, ODOD indicated that it was satisfied that certain commitments made by AEP Ohio would adequately address those concerns.

After providing the participants the opportunity to ask questions of ODOD and AEP Ohio representatives regarding the audit results and the ODOD conclusions, ODOD proposed that it enter into a settlement agreement with AEP to memorialize the AEP commitments as well as ODOD's conclusion that no USF rider rate adjustment is required as a result of the Schneider Downs' AUP report. ODOD further proposed that a motion be filed with the Commission seeking approval of this settlement agreement and closing the NOI phase of this case as it relates to AEP. No participating party objected to this proposal, and undersigned counsel are authorized to represent that no party to the proceeding opposes this settlement agreement.

Consistent with the foregoing discussion, ODOD and AEP Ohio have entered into the settlement agreement attached hereto as Exhibit A, and respectfully request that the Commission issue an order approving this settlement agreement and closing the NOI phase of this proceeding as it relates to CSP and OPC.

Respectfully submitted,



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EXHIBIT A

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is entered into by and between Columbus Southern Power Company ("CSP") and Ohio Power Company ("OPC") (collectively, "AEP Ohio") and the Ohio Department of Development ("ODOD") (collectively, with AEP, the "Parties") this 12th day of January 2010.

WHEREAS, ODOD retained the accounting firm of Schneider Downs to perform an application of agreed-upon procedures ("AUP") to test the accuracy and timeliness of the PIPP-related accounting and reporting of AEP Ohio and to prepare a report of its findings (the "AUP Report"); and

WHEREAS, on April 15, 2009, ODOD filed a Supplement to its Notice of Intent in Public Utilities Commission of Ohio ("Commission") Case No. 08-658-EL-UNC setting forth its conclusions with respect to the adequacy of AEP Ohio's performance as measured by the application of each of the various procedures jointly developed by ODOD and Schneider Downs to test the accuracy and timeliness of AEP Ohio's PIPP-related accounting and reporting; and

WHEREAS, although ODOD concluded in the Supplement that AEP's performance in the areas measured by certain procedures was satisfactory, ODOD identified concerns raised by exceptions reported by Schneider Downs in connection with other procedures, and requested that AEP Ohio respond to those concerns and/or provide certain additional information with respect thereto; and

WHEREAS, on May 4, 2009, AEP Ohio filed its response to the concerns identified by ODOD, and supplemented its response by submitting certain additional information on June 11, 2009; and

WHEREAS, on June 26, 2009, ODOD filed a reply to the AEP Ohio response, indicating that, although the AEP Ohio response adequately addressed certain of the concerns identified in the Supplement, issues remained with respect to the results of other of the procedures reported by Schneider Downs, and requesting that AEP Ohio provide an additional response to address those remaining concerns; and

WHEREAS, on July 26, 2009, AEP Ohio filed a response to the matters raised in the ODOD reply; and

WHEREAS, as a result of its review of the various responses submitted by AEP Ohio, ODOD has concluded that none of the exceptions reported by Schneider Downs evidenced systemic problems that could have had a material impact on the cost of PIPP recovered through AEP Ohio's USF rider during the 2006-2007 period covered by the Schneider Downs review, and that, therefore, no adjustments to the CSP or OPC USF rider rates are required; and

WHEREAS, in those instances where ODOD determined that AEP Ohio's performance was unsatisfactory during the period covered by the Schneider Downs' review, AEP has provided commitments to change its PIPP-related practices in a manner that satisfies ODOD's concerns; and

WHEREAS, ODOD and AEP Ohio wish to memorialize ODOD's conclusions and AEP Ohio's commitments in a written agreement to be submitted to the Commission for approval;

NOW, THEREFORE, in consideration of the terms and mutual promises set forth herein, the Parties hereby agree as follows:

1. None of the exceptions reported by Schneider Downs as a result of its application of agreed upon procedures to test the timeliness and accuracy of AEP Ohio's PIPP-related accounting and reporting evidence a systemic problem that could have had a material impact on the cost of PIPP recovered through the CSP and OPC USF riders during the 2006-2007 period covered by the Schneider Downs' review. Thus, no adjustments to the CSP or OPC USF riders are required to credit customers for overpayments during the review period.
2. As warranted in its June 26, 2009 response to ODOD's conclusion with respect to Procedure #4, AEP Ohio shall complete the software changes necessary to exclude PAC 2 and inactive PIPP customers arrearage information in completing the USF-301 Reports so as to comply with the applicable arrearage reporting requirements no later than November 1, 2010.
3. As warranted in its May 5, 2009 and June 26, 2009 responses to ODOD's conclusion with respect to Procedure #5, AEP Ohio shall report PIPP customer financial activity on a revenue month basis and shall complete the software changes necessary to comply with the applicable CIR and USF-301 reporting requirements no later than November 1, 2010.
4. As warranted in its June 26, 2009 response to ODOD's conclusion with respect to Procedure #16, AEP Ohio shall, no later than January 2010, implement a policy of

pursuing collection procedures with respect to final-billed PIPP customer balances and shall apply this policy retroactively for final-billed PIPP customer balances as of January 1, 2007 forward. AEP shall remit PIPP amounts collected through collection procedures to the USF, net of collection fees.


5. Upon execution of this Agreement, the Parties will, forthwith, file a joint motion with the Commission seeking an order approving the Agreement and closing the NOI phase of Case No. 08-658-EL-UNC as it relates to CSP and OPC.

WHEREFORE, the Parties have caused this Agreement to be executed by their undersigned duly-authorized representative, effective as of the date first written above.

Columbus Southern Power Company
Ohio Power Company

By: 

The Ohio Department of Development

By: 

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing has been served upon the following parties by first class mail, postage prepaid, this 19th day of January 2010.


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