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March 19, 2010

Mr. Joseph Buckley
The Public Utilities Commission of Ohio
3rd Floor, 180 East Broad Street
Columbus, OH 43215-3793

Dear Mr. Buckley:

Please find enclosed our final report of the Analysis of AEP's Ohio Operating Companies Compliance with its Corporate Separation Plan including a review of the cost allocation manual (CAM).

Don't hesitate to call Sue Hong (414 777 5498 or sue.hong@bakertilly.com) or me (608 240 2394 or russ.hissom@bakertilly.com) with any questions. We appreciate the opportunity to be of service.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

A handwritten signature in black ink, appearing to read "R. Hissom", is written over a light blue horizontal line.

Russ Hissom, CPA, Partner

Enclosures

Public Utilities Commission of Ohio

**Analysis of AEP's Ohio Operating Companies Compliance
with its Corporate Separation Plan**

Prepared by:

Baker Tilly Virchow Krause, LLP

March 19, 2010

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EXECUTIVE SUMMARY

1. Executive Summary

1.1 Background

Columbus Southern Power Company ("CSP") and Ohio Power Company ("OP"), collectively "AEP Ohio" or "the Companies," are electric utility operating companies within the American Electric Power system. American Electric Power Company, Inc. ("AEP"), through its electric utility operating companies, provides generation, transmission and distribution services in eleven states.¹ American Electric Power Service Corporation ("AEPSC"), a subsidiary of AEP, provides accounting, administrative, information technology, engineering, financial, legal, maintenance, and other services to AEP system companies, including CSP and OP.

On June 1, 2009, CSP and OP filed in 09-464-EL-UNC their Corporate Separation Plan for Commission approval. The filing describes the processes and controls AEP Ohio have implemented pursuant to the Section 4928.17, Revised Code and Chapter 4901:1-37, Ohio Administrative Code ("OAC")

A corporate separation plan should include following components:

- 1) Provisions that maintain structural safeguards.
- 2) Provisions that maintain separate accounting.
- 3) A list of all current affiliates identifying each affiliate's product(s) and/or service(s) that it provides.
- 4) A list identifying and describing the financial arrangements between the electric utility and all affiliates.
- 5) A code of conduct policy that complies with this chapter and that employees of the electric utility and affiliates must follow.
- 6) A description of any joint advertising and/or joint marketing activities between the electric utility and an affiliate that the electric utility intends to utilize, including when and where the name and logo of the utility will be utilized, and explain how such activities will comply with this chapter.
- 7) Provisions related to maintaining a cost allocation manual ("CAM").
- 8) A description and timeline of all planned education and training throughout the holding company structure, to ensure that electric utility and affiliate employees know and can implement the policies and procedures of this rule. The information shall be maintained on the electric utility's public web site.
- 9) A copy of a policy statement to be signed by electric utility and affiliate employees who have access to any nonpublic electric utility information, which indicates that they are aware of, have read, and will follow all policies and procedures regarding limitation on the use of nonpublic electric utility information. The statement will include a provision stating that failure to observe these limitations will result in appropriate disciplinary action.
- 10) A description of the internal compliance monitoring procedures and the methods for corrective action for compliance with this chapter.
- 11) A designation of the electric utility's compliance officer who will be the contact for the commission and staff on corporate separation matters. The compliance officer shall certify that the approved corporate separation plan is up to date and in compliance with the commission's rules and orders. The electric utility shall notify the commission and the director of the utilities department (or their designee) of changes in the compliance officer.
- 12) A detailed description outlining how the electric utility and its affiliates will comply with this chapter. The format shall identify the provision and then provide the description.
- 13) A detailed listing of the electric utility's electric services and the electric utility's transmission and distribution affiliates' electric services.
- 14) A complaint procedure to address issues concerning compliance with this chapter

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Baker Tilly Virchow Krause, LLP (“we”, “us”, “Baker Tilly”) was engaged to perform an Independent Evaluation¹ of the Corporate Separation Plan to determine if AEP Ohio have implemented their Corporate Separation Plan and are in compliance with the rules set forth in section 4928.17, Revised Code and Chapter 4901:1-37 O.A.C. and if the methodologies used by affiliated companies which allocate, charge, or assign costs to AEP Ohio are appropriate. Our primary focus was to review policies in place in 2009 and test transactions executed from June - November 2009.

1.2 Key Findings and Observations

Based on our review, Baker Tilly concludes that AEP Ohio has implemented their Corporate Separation Plan and are in compliance with the rules set forth in section 4928.17, Revised Code and Chapter 4901:1-37 O.A.C with the following exceptions:

Finding 1 - Not all employees completed the code of conduct training as required by AEP Ohio's Corporate Separation Plan.

AEP Ohio has no record of completion of the code of conduct training and the required signed policy statement for 19 employees and one contractor.

Recommendation 1 – Baker Tilly recommends that AEP Ohio strengthen the controls around the monitoring and tracking of the code of conduct training participation to enforce the code of conduct training requirement.

Finding 2 - AEP Ohio does not require employees outside Ohio to complete the Ohio code of conduct training.

AEP Ohio requires only Ohio employees physically residing in Ohio, whether employees of CSP, OP or AEPSC, to take the Ohio Corporate Separation Code of Conduct training.

Recommendation 2: Baker Tilly recommends that AEP Ohio require out-of-state employees that provide services to AEP Ohio to complete the Ohio Corporate Separation Code of Conduct training.

Finding 3 – AEP Ohio does not maintain a listing of shared employees and shared consultants and independent contractors and therefore is in non-compliance with the §4901:1-37-08(D)(4)-(5) requirement.

Per our request for the required listing of shared employees, shared consultants and independent contractors, AEP Ohio provided the following responses:

- > CSP and OP do not have an affiliate which is a competitive retail service provider. Their affiliate which provides non-electric products or services to customers (AEP T&D Services, LLC) does not have any employees. Therefore there are no shared employees as referenced in the CAM (Document # 04-04-02).
- > CSP and OP do not have an affiliate which is a competitive retail service provider. Their affiliate

¹ Baker Tilly's work does not constitute an “audit” or “review” under generally accepted auditing standards under the American Institute of Certified Public Accountants and therefore we do not express an audit opinion or any other form of assurance under evaluating standards on the work done for this project. The use of the words “auditor review” is not in the context of evaluating standards. The use of the word “auditor” is in the context of the requirements of the Request for Proposal for this project.

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which provides non-electric products or services to customers (AEP T&D Services, LLC) does not have any employees. Therefore, there are no shared consultants nor any shared independent contractors as referenced in the CAM (Document # 04-04 02).

However, it was noted that AEP T&D Services LLC, in lieu of its own employees, relies on employees from the operating companies and occasionally on contractors. It was also noted that AEP T&D Services LLC used a contractor that was also used by OP in 2009.

Recommendation 3 - To the extent that the separate AEP Companies (e.g., AEP T&D Services, LLC) rely on the services of AEP Ohio employees other than emergency purposes, Baker Tilly recommends that the listing of these employees be maintained as "shared employees" per §4901:1-37-08(D)(4).

Recommendation 4 - To the extent a consultant or independent contractor contracted by AEP Ohio is also contracted by the separate AEP Companies, Baker Tilly recommends that a listing be maintained per §4901:1-37-08(D)(5). Baker Tilly views that determining whether job duties are "incidental" can be subjective. There could be many pertinent questions other than the number of projects performed: the number of work hours, the nature of the project, how essential the service is to the benefiting entity, etc.

Finding 4 – The allocation methodology subject to the Affiliate Transactions Agreement (dated December 31, 1996) was modified without proper amendment to the agreement.

Per the Affiliate Transactions Agreement, legal services should be allocated on KWh sales. However, the sample transaction tested shows that the allocation was based on total assets.

With regard to using total assets to allocate legal services, in general, Baker Tilly notes that this practice may favor non-regulated companies over regulated companies, as regulated companies typically carry more assets.

Recommendation 5 - Changes to the allocation methodology included in affiliate transaction agreements should be reviewed and approved by management of affiliate companies.

Recommendation 6 - The use of total assets as a main allocation factor for certain corporate charges should be reviewed during a future regulatory proceeding.

Finding 5 – Although there have been internal and external audits for other state jurisdictions, Ohio CAM & the Corporate Separation Rules have not been reviewed since 2001.

Recommendation 7 - Baker Tilly recommends that the AEPSC Audit Services Department perform more periodic internal monitoring of compliance with Ohio corporate separation plan and the CAM including the follow-up of the recommendations made in this audit.

Finding 6 – A variable interest entity (VIE) and subsidiary of OP was not included in the CAM. The affiliate listing in the CAM has not been accurately maintained.

There is no effective control around tracking Variable Interest Entities for the affiliate listing in the CAM. The CAM listing was not updated to include JMG Funding LP in the third quarter of 2009. JMG is a variable interest entity and wholly-owned subsidiary of OP. In July 2009, OP purchased all of the outstanding equity ownership of JMG.

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Recommendation 8 - The affiliate listing in the CAM should be updated and accurately maintained per §4901:1-37-08(D)(1), O.A.C. Baker Tilly recommends that AEP implement a process to confirm any changes with subsidiaries especially for Variable Interest Entities on a quarterly basis.

1.3. Potential Issue

Potential Issue – AEP companies with no employees may not receive their fair share of corporate cost allocations if costs are allocated based on the number of employees.

As discussed above, AEP T&D Services, LLC, in lieu of its own employees, relies on employees from the operating companies. Under this practice, the companies with no employees may not receive their fair share of corporate cost allocation if cost are allocated based on the number of employees. The number of employees is one of the top 10 allocation factors used by AEPSC.

Recommendation 9 - To the extent that employees of CSP and OP also provides services to AEP T&D Services, LLC, Baker Tilly recommends that AEP evaluate whether it is fair and equitable to charge AEP T&D Services, LLC a certain portion of AEPSC costs currently allocated on the number of employees. Baker Tilly recommends that AEP conduct a detail review to confirm whether the work orders allocated on the number of employees are included in the A&G overhead loading.

1.4 Procedures

Baker Tilly performed the following procedures as part of this evaluation:

- > Reviewed various documentation including AEP Ohio's corporate separation plan, affiliate agreements, process and controls documents, internal audit reports, and financial statements
- > Interviewed company management
- > Performed sample testing for accounting transactions
- > Reviewed the reasonableness of the cost allocation methodology implemented by AEPSC
- > Reviewed training requirements and compliance with those requirements
- > Evaluated information safeguards in place
- > Reviewed the Cost Allocation Manual for inclusion of all required information
- > Reviewed the customer handbook for proper disclosures to customers

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2. Findings and Observations

Based on our review, we conclude that AEP Ohio has implemented their Corporate Separation Plan and are in compliance with the rules set forth in section 4928.17, Revised Code and Chapter 4901:1-37 O.A.C with the following exceptions:

2.1. Code of Conduct

Background

§4901:1-37-04(D)(1)-(11) of O.A.C. requires the Companies to adopt a Code of Conduct Policy that employees of the electric utility and affiliates must follow. This Code of Conduct must include information regarding customer information, access rights, confidential information, anticompetitive subsidies, competitive retail electric service providers, providing comparable access to products and services, and shared representative responsibilities.

§4901:1-37-05(B)(9) also requires the corporate separation plan to include a copy of a policy statement to be signed by electric utility and affiliate employees who have access to any nonpublic electric utility Information, which indicates that they are aware of, have read, and will follow all policies and procedures regarding limitation on the use of nonpublic electric utility information. The Statement will include a provision stating that failure to observe these limitations will result in appropriate disciplinary action.

§4928.18 (D), Ohio Rev. Code, provides: Corporate separation under this section does not prohibit the common use of employee benefit plans, facilities, equipment, or employees, subject to proper accounting and the code of conduct ordered by the commission.

According to AEP Ohio, the following system has been implemented:

“AEP maintains an on-line learning management system known as "KEY". KEY is the repository for all employee training assignments and tracks training completion. Training profiles have been loaded into the KEY system that define, for each required training program, the characteristics of those employees to whom the training should be assigned. These characteristics include business unit, job classification, and physical work location.

When an employee joins AEP, the employee's name and defining characteristics are loaded into KEY by the Human Resources department. The KEY system then identifies the training to be assigned to the employee. All Ohio employees physically residing in Ohio, whether employees of Columbus Southern Power, Ohio Power or the Service Corporation are assigned the Ohio Corporate Separation/Code of Conduct training.

Once the training has been assigned, an email is generated by KEY and sent to the employee that notifies him/her of the training requirement and provides a link and instructions for gaining access to the training module. The employee is given 120 days from the date he/she begins working in Ohio to complete the training. If the training has not been completed after 90 days, KEY sends weekly emails to both the employee and their immediate supervisor reminding them of the need to complete the training. These email notifications will continue to be generated until the training is completed.

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Once the training has been completed, employees sign an "Employee Acknowledgment Form" stating that they have received training on the Ohio Corporation Separation Rules including the Code of Conduct and that they will adhere to the policies AEP adopts to comply with the Ohio Rules and to the procedures established to implement the Ohio Rules."

Baker Tilly Conclusion

As part of our code of conduct testing, we noted the following findings:

Finding 1 - Not all employees completed the code of conduct training as required by AEP Ohio's Corporate Separation Plan.

AEP Ohio has no record of completion of the code of conduct training and the required signed policy statement for 19 employees and one contractor.

Safeguards between the electric companies' and its affiliates related to affiliate transactions, shared employees, shared facilities, and cross-subsidies are essentially based on the adherence to the code of conduct of this rule. The compliance of various sections including sharing employees and facilities with affiliates heavily relies on the adherence of the code of conduct as a key control.

AEP Ohio stated that a notice will be sent to these individuals that they must either prove that they have completed the training or complete the training using the KEY learning management system.

Finding 2 - AEP Ohio does not require employees outside Ohio to complete the Ohio code of conduct training.

AEP Ohio requires only Ohio employees physically residing in Ohio, whether employees of CSP, OP or AEPSC, to take the Ohio Corporate Separation Code of Conduct training.

According to the file provided by the Companies, approximately \$9 million in direct labor costs were charged to AEP Ohio from June – Nov 2009 by approximately 1,700 AEPSC employees who reside outside the state of Ohio. Except for nominal exceptions, these employees did not take the Ohio Corporate Separation Code of Conduct training. Based on the amount of labor charged we would consider these to be de facto employees working for AEP Ohio for this time period and subject to the Ohio Code of Conduct training.

Baker Tilly Recommendations

- > AEP Ohio should strengthen the controls around the monitoring and tracking of the code of conduct training participation to enforce the code of conduct training requirement.
- > Baker Tilly recommends that AEP Ohio require out-of-state employees that provide services to AEP Ohio to complete the Ohio Corporate Separation Code of Conduct training.

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Procedures Performed in Connection with the Baker Tilly Conclusion

- > Reviewed a summary of the Ohio Rules of the Road Training which includes the Code of Conduct to ensure it covers information regarding proprietary information, information safeguards, and sales practices.
- > Verified that the customer handbook included information on competitive electric retail service providers and an opt-off option for the pre-enrollment list.
- > Viewed a listing of employees who have not completed the Ohio Rules of the Road training and the Code of Conduct to ensure all Ohio employees have taken the training.
- > Reviewed the file provided that shows the AEPSC direct labor billed to AEP Ohio by department ID and state for June 2009 through November 2009.

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2.2. Shared Employees and Shared Consultants and Independent Contractors

Background

§4901:1-37-08(D)(4)-(6) requires the Cost Allocation Manual ("CAM") to include the followings:

- (4) A copy of the job description of each shared employee.
- (5) A list of names and job summaries for shared consultants and shared independent contractors.
- (6) A copy of all transferred employees' (from the electric utility to an affiliate or vice versa) previous and new job descriptions.

In the Corporate Separation Plan, AEP Ohio stated that the required lists are appended to the CAM by reference and that AEPSC's Human Resources Department, working with the various business units, prepares and maintains the list for "shared employees", including any shared consultants and shared independent contractors, and "transferred employees".

In the corporate separation plans filed by CSP (Case No. 99-1729-EL-ETP) and OP (Case No.99-1730-EL-ETP), AEP Ohio defined a "shared employee" as follows:

"Any employee of the electric utility, or any affiliate which provides a competitive retail electric service or which provides a non-electric product or service to customers (i.e., the Separate AEP Companies), or a consultant, independent contractor, or any other person performing 'various duties or obligations on behalf of the electric utility or the Separate AEP Companies, whose more than incidental job duties and responsibilities are divided between the electric utility and any Separate AEP Companies for other than emergency purposes."

Currently, two AEP affiliates can be classified as "any affiliate which provides a competitive retail electric service or which provides a non-electric product or service to customers" as defined by AEP Ohio: AEP T&D Services LLC and AEP Retail Energy Partners LLC. AEP T&D Services LLC is a separate corporate entity that provides products/services other than retail electric service in the Companies' certified service territories. On February 1, 2010, the Commission certified AEP Retail Energy Partners LLC as a CRES Provider. AEP Retail Energy Partners LLC could register with either Company or both Companies to provide generation service in the Companies' certified service territories, but has not done so.

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Baker Tilly Conclusion

Finding 3 – AEP Ohio does not maintain a listing of shared employees and shared consultants and independent contractors and therefore is in non-compliance with the §4901:1-37-08(D)(4)-(5) requirement.

Per our request for the required listing of shared employees, shared consultants and independent contractors, AEP Ohio provided the following responses:

- > CSP and OP do not have an affiliate which is a competitive retail service provider. Their affiliate which provides non-electric products or services to customers (AEP T&D Services, LLC) does not have any employees. Therefore there are no shared employees as referenced in the CAM (Document # 04-04-02).
- > CSP and OP do not have an affiliate which is a competitive retail service provider. Their affiliate which provides non-electric products or services to customers (AEP T&D Services, LLC) does not have any employees. Therefore, there are no shared consultants nor any shared independent contractors as referenced in the CAM (Document # 04-04 02).
- > CSP and OP do not have an affiliate which is a competitive retail service provider. Their affiliate which provides non-electric products or services to customers (AEP T&D Services, LLC) does not have any employees. Therefore, there are no such transferred employees since there are no such affiliates as referenced in the CAM (Document # 04-04-03).

AEP Ohio stated that, AEP T&D Services LLC, in lieu of its own employees, relies on employees from the operating companies and occasionally on contractors. Per our inquiry, AEP Ohio provided the following statement explaining why these employees are not considered “shared”:

“As reflected in the definition in that section of the CAM, employees, independent contractors and consultants are considered "shared" if they have "more than incidental job duties and responsibilities " divided between the electric utility and an affiliate for other than emergency purposes. The employees, independent contractors or consultants used by AEP T&D Services LLC are chosen on a job-by-job basis based on their skills, location and availability. They are not assigned to AEP T&D Services LLC for a portion of their job responsibilities on a regular basis. To the extent they are selected to work on a particular project it is merely incidental to their regular responsibilities. To conclude that simply because an employee, independent contractor or consultant works on a project for AEP T&D Services LLC they are "shared", even if that work represents an incidental fraction of their overall work responsibilities, does not meet the concept of "shared" for Corporate Separation purposes.”

With regard to the “shared consultant and shared independent contractor”, we noted that AEP T&D Services LLC used a contractor that was also used by OP in 2009. However, AEP Ohio does not classify this contractor as “shared” and provided the following statement:

“The contractor used by AEP T&D Services, LLC in 2009 was used as a contractor by OPCo during the past three years. The contractor did only one project for AEP T&D Services, LLC in 2009, whereas it participated in 37 projects for OPCo during 2009.”

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Baker Tilly Recommendations

- > To the extent that the Separate AEP Companies (as defined by AEP, e.g., AEP T&D Services, LLC) relies on the services of AEP Ohio employees other than emergency purposes, Baker Tilly recommends that the listing of these employees be maintained as "shared employees" per §4901:1-37-08(D)(4).
- > To the extent a consultant or independent contractor contracted by AEP Ohio is also contracted by the Separate AEP Companies, Baker Tilly recommends that a listing be maintained per Section 4901:1-37-08(D)(5). Baker Tilly views that determining whether job duties are "incidental" can be subjective. There could be many pertinent questions other than the number of projects performed: the number of work hours, the nature of the project, how essential the service is to the benefitting entity, etc.

Procedures Performed in Connection with the Baker Tilly Conclusion

- > Requested listings of shared employees and shared consultants and independent contractors.
- > Reviewed sample affiliate transactions to ensure they were supported by an agreement and made at arm's length.

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2.3. Cost Allocations

Background

Per §4901:1-37-04(A)(5), O.A.C., an electric utility should ensure that all shared employees appropriately record and charge their time based on fully allocated costs. Certain Cost Allocation Manual ("CAM") requirements are set out in §4901:1-37-08 (A)-(J). AEP Ohio's CAM contains information pertaining to affiliates and how costs are allocated to them, products and services, agreements, complaint logs, and meeting minutes. AEP made the following statements in the CSP regarding their cost allocation methodology:

"At AEP, cost allocations between regulated and non-regulated operations take place through intercompany billings and affiliate transactions. The intercompany billing process and related procedures move costs between AEP System's regulated electric utilities and their non-regulated affiliates. The cost allocation process recognizes the nature of the work performed for the respective parties and their use of services and facilities.

AEPSC performs services for American Electric Power Company, Inc., the parent holding company, and most subsidiaries in the AEP system. AEPSC uses a work order system to collect and bill costs to its Affiliate companies for services that it performs.

Attached to each work order, as an attribute, is a benefitting location code that identifies the location or area that benefits from the work. A benefitting location can define, among other things, a power plant, a generating unit at a power plant, or a region. Each benefitting location further defines the company or group of companies that operate in the particular location or area.

Shared costs are billed using approved allocation factors. The Accounting department reviews requests for new AEPSC work orders. The review includes (1) Appropriate descriptions – to ensure that the users will understand the type of costs to be accumulated in each work order. (2) Appropriate benefitting location – to ensure that the proper affiliated company or group of companies will be billed (3) Appropriate billing allocation factor – to verify (based on the work performed) that the appropriate cost drivers are being used for the type of service being performed such as Number of Employees, Transmission Pole Miles, Number of Retail Electric Customers, or Total Assets."

In addition, per §4901:1-37-08 (E), the method for charging costs and transferring assets should be based on fully allocated costs.

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Baker Tilly Conclusion

Based on our review of cost allocation manual, cost allocation methodology, and sample transactions, AEP Ohio appears to be in compliance with the provisions with the following exception:

Finding 4 – The allocation methodology subject to the Affiliate Transactions Agreement (dated December 31, 1996) was modified without proper amendment to the agreement.

Per the Affiliate Transactions Agreement, legal services should be allocated on KWh sales. However, the sample transaction tested shows that the allocation was based on total assets.

AEP Ohio provided the following statements:

“The Affiliate Transactions Agreement was dated December 31, 1996, and since this time the company has refined processes and established additional allocations factors to facilitate more accurate billings of costs between affiliates.”

Although we acknowledge that an allocation methodology may need a periodic review and update, we note that the Affiliate Transactions Agreement should have been updated to reflect the change and to obtain senior management's review and approval.

With regard to using total assets to allocate legal services, in general, Baker Tilly notes that this practice may favor non-regulated companies over regulated companies, as regulated companies typically carry more assets.

Reviewing the AEPSC charges to OP and CSP, total assets were the second and third most frequently used allocator. Approximately 12% and 10% of AEPSC charges were allocated based on total assets to OP and CSP, respectively for the five month period from June to November 2009.

Baker Tilly Recommendations

- > Changes to the allocation methodology included in affiliate transaction agreements should be reviewed and approved by management of affiliate companies.
- > The use of total assets as a main allocation factor for certain corporate charges should be reviewed during a future regulatory proceeding.

Procedures Performed in Connection with the Baker Tilly Conclusion

- > Reviewed sample affiliate transactions to ensure they were supported by an agreement and made at arm's length.
- > Reviewed sample timesheet to ensure proper accounting codes were used and that time was charged based on fully allocated costs.
- > Reviewed sample workorder request forms for justification for the allocation factor and benefitting location selection.
- > Reviewed the reasonableness of the cost allocation methodology implemented by AEPSC.

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2.4. Internal Compliance Monitoring

Background

Per §4901:1-37-05(B)(10), O.A.C., a corporate separation plan should include a description of the internal compliance monitoring procedures and the methods for corrective action for compliance with this chapter.

In their corporate separation plan, the Companies stated that the AEPSC Audit Services Department has responsibility for monitoring compliance with the corporate separation rules and outlined the primary areas for periodic review.

Baker Tilly Conclusion

Finding 5 – Although there have been internal and external audits for other state jurisdictions, Ohio CAM & the Corporate Separation Rules have not been reviewed since 2001.

The table below summarizes the related audits in various state jurisdictions.

Company	Audit required by	Audit	Year under audit
Appalachian Power Company	Virginia State Corporation Commission	Internal Controls re: Functional Separation	2008
Texas Affiliates	Public Utility Commission of Texas	Compliance of AEP's Texas Code of Conduct	2008
Indiana Michigan Power Company	Indiana Utility Regulatory Commission and Michigan Public Service Commission	Compliance with Section 8, Affiliate Standards	2006-2007
CSP & OP	Public Utility Commission of Ohio	Compliance of Ohio corporate separation plan	2001

Baker Tilly Recommendations

- > Baker Tilly recommends that the AEPSC Audit Services Department perform more periodic internal monitoring of compliance with Ohio corporate separation plan and the CAM including the follow-up of the recommendations made in this audit.

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Procedures Performed in Connection with the Baker Tilly Conclusion

- > Reviewed the 2001 internal audit programs and results.
- > Reviewed the internal and external audit reports of other AEP Ohio affiliates related to affiliate transactions and code of conduct.

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2.5. Update and Maintenance of the CAM

Background

Per §4901:1-37-08(D)(1), O.A.C., the CAM should include an organization chart of the holding company, depicting all affiliates, as well as a description of activities in which the affiliates are involved.

In their corporate separation plan, the Companies stated that the AEPSC Audit Services Department has responsibility for monitoring compliance with the corporate separation rules and outlined the primary areas for periodic review.

Baker Tilly Conclusion

Finding 6 – A variable interest entity (VIE) and subsidiary of OP was not included in the CAM. The affiliate listing in the CAM has not been accurately maintained.

It appears that there is no effective control around tracking Variable Interest Entities for the affiliate listing in the CAM. The CAM listing was not updated to include JMG Funding LP in the third quarter of 2009. JMG is a variable interest entity and wholly-owned subsidiary of OP. In July 2009, OP purchased all of the outstanding equity ownership of JMG.

The CAM reports the structure of OP and its subsidiaries as follows:

105 01.	Ohio Power Company [Note J]
106	02. Cardinal Operating Company [Note E]
107	02. Central Coal Company [Note K]
108	02. OP Gavin, LLC

Per our requests, AEP stated that the company should have been listed and that they are implementing a process to check the list for Variable Interest Entities each quarter.

Baker Tilly Recommendations

- > The affiliate listing in the CAM should be updated and accurately maintained per §4901:1-37-08(D)(1), O.A.C.
- > Baker Tilly recommends that AEP implement a process to confirm any changes with subsidiaries especially for Variable Interest Entities on a quarterly basis.

Procedures Performed in Connection with the Baker Tilly Conclusion

- > Reviewed the CAM to ensure that it included a listing of electric utility companies and their affiliates and that the listing was current.
- > Reviewed 2009 10Q (2nd and 3rd quarter) for Management Discussion and Analysis

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POTENTIAL ISSUE

3. Potential Issue

As part of our review, we noted the following potential issue that warrants further review.

Potential Issue – AEP companies with no employees may not receive their fair share of corporate cost allocations if costs are allocated based on the number of employees

As discussed above, AEP T&D Services, LLC, in lieu of its own employees, relies on employees from the operating companies. Under this practice, the companies with no employees may not receive their fair share of corporate cost allocation if cost are allocated based on the number of employees.

The number of employees is one of the top 10 allocation factors used by AEPSC. For a point of reference, for the five months tested (June – November 2009), CSP and OP received an allocation of \$2.7 million and \$4.8 million from AEPSC, respectively, based on the number of employees. To the extent that employees of CSP and OP also provides services to AEP T&D Services, LLC, it should be evaluated whether it is fair and equitable for AEP Ohio to pass through to AEP T&D Services, LLC a certain portion of AEPSC costs allocated on the number of employees.

AEP provided the following statement:

“AEPSC allocations based upon the number of employees allocator relate to services provided for employee related functions such as payroll, human resources, timekeeping systems, etc. In general, the billings for these services are A&G in nature, and result in billings to the A&G accounts of those affiliates with employees. Once these allocations become operating company A&G costs, they are included in an A&G overhead loading that is applied to billings from an operating company to another affiliate. The end result is that costs which are initially billed by AEPSC using an employee allocator ultimately are included in loadings on billings from the operating company to other affiliates, such as AEP T&D Services.”

If the costs allocated on the number of employees are billed to the A&G accounts and included in the A&G overhead loading as AEP stated, the affiliates without employees would ultimately receive their share of allocation. However, at the time of our report, this has not been tested. Baker Tilly recommends that AEP conduct a detail review to confirm whether the work orders allocated on the number of employees are included in the A&G overhead loading including the following ones allocated from AEPSC to AEP Ohio for the five months that we reviewed.

4118297301	SITC900901	SITG719001
4132112101	SITC902901	SITG827201
4135654801	SITC903401	SMANLBR101
4135654802	SITC910001	SMANLBR201
G0001553	SITC911801	SMANLBR301
SHRCNTRL01	SITC916501	SMANLBR401
SITC601801	SITC918601	SMANLBR501
SITC719001	SITC924401	SP01100001
SITC721701	SITE400401	SP01102901

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POTENTIAL ISSUE

SITC826601	SITE407301	SP04000101
SITC826701	SITE409501	SP05002701
SITC827201	SITE420301	SP06004801
SITC827701	SITG621401	SW09000101

Baker Tilly Recommendations

- > To the extent that employees of CSP and OP also provides services to AEP T&D Services, LLC, Baker Tilly recommends that AEP evaluate whether it is fair and equitable to charge AEP T&D Services, LLC a certain portion of AEPSC costs currently allocated on the number of employees. Baker Tilly recommends that AEP conduct a detail review to confirm whether the work orders allocated on the number of employees are included in the A&G overhead loading.

Procedures Performed in Connection with the Baker Tilly Conclusion

- > Reviewed the reasonableness of the cost allocation methodology implemented by AEPSC.

APPENDIX

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#	Data Requested
1.1	Please provide controls and process documentation (including narratives, flow charts, SOX controls) within AEP-Ohio relevant to AEP's Corporate Separation Plan ("CSP") covering following areas among others:
1.1.a	Financial Arrangements
1.1.b	Information Safeguards
1.1.c	Marketing Practices
1.1.d	Complaint Procedures
1.1.e	Cost Allocation Manual
1.2	Provide copies of agreements (e.g., service agreements, money pool agreement, etc.) between the Companies and their affiliates.
1.3	Please provide the following for each of the Companies:
1.3.a	Service territories
1.3.b	List of employees (name and ID) by functional group. Indicate "Shared Employees".
1.4	Please provide a listing of physical facilities used by the Companies and their affiliates with an indication of regulated and non-regulated areas. Also provide a copy of access logs to each physical facility.
1.5.a	Please provide documentation on cost accounting systems and processes in place to ensure the Companies and their affiliates maintain separate accounting.
1.5.b	Also provide a chart of accounts to delineate business unit codes and work orders.
1.6	Please provide 2009 financial statements (I/S and B/S) for each company.
1.7	Please provide a salary and salary-related costs report from AEP's time reporting system for the months of June through December 2009.
1.8	Please provide intercompany/ affiliated transactions details (including intercompany payable and receivable accounts) for the months of June through December 2009.
1.9	Please provide general ledger detail for each of the Companies' business units or functions (generation, transmission, and distribution) for the months of June through December 2009.
1.10	Please provide a list identifying financial arrangements between the Companies and each of all their affiliates.
1.11	Please provide the Companies' Customer Handbook and the 3rd quarter pre-enrollment list of customers.
1.12	Provide a copy of bill inserts sent out in 2009 notifying customers' option to opt off the pre-enrollment list.
1.13	Please provide the Corporate Information Security Policy and the Security Monitoring and Logging Standard along with the log that is maintained to comply with this standard.
1.14	Please provide a listing of information system assets and assigned owners (responsible for access authorization, controls and compliance)
1.15	Please provide meeting minutes from the Customer Service Department meetings from June through December 2009, if available, that demonstrates the discussion of the topic of consumer protection and confidentiality.
1.16	Please provide available internal memos or reports made by the Director, Ethics & Compliance on unreasonable sales practices, market deficiencies, and market power.

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#	Data Requested
1.17	Please provide a copy of the most recently updated cost allocation manual (CAM).
1.18	Please provide a copy of Code of Conduct, if different from Exhibit 2-A and 2C of CSP.
1.19	Please provide AEP internal audit work programs and reports with regard to the corporate separation rules.
1.20	Please provide a listing of training programs and documentation on training requirements related to CSP, if different from what was included in page 29 & 30 of CSP.
1.21	Copy of all complaints received in 2009, if not included in the CAM.
2.1	Accounting policy on inter-business unit transactions
2.2	Exceptions criteria for settlement of transactions
2.3	December 2009 statistics
2.4	June – December 2009 AEPSC billing to Ohio companies by work order, allocation factor, and benefiting location
3.1	An authorization list of individuals for the physical facilities used by the Companies and their affiliates.
3.2	A list of names and job descriptions for shared employees as referenced in the CAM (Document # 04-04-02).
3.3	A list of names for shared consultants and shared independent contractors as referenced in the CAM (Document # 04-04-02).
3.4	4. A list of all transferred employees' (from the electric utility to an affiliate or vice versa) previous and new job descriptions as referenced in the CAM (Document # 04-04-03).
3.5	Please provide an explanation of circumstances when an employee outside of the Service Corporation would work in a company other than their own.
4.1	Documents as referenced in the 2001 internal audit:
4.1.a	Code of Conduct Responsibility Matrix
4.1.b	General Control Summary
4.1.c	OH Corp Separation Rules Matrix
4.2	Most recent internal and external audit reports for Virginia (Functional Separation), Indiana (Affiliate transactions), and Texas (Code of conduct)
4.3	Most recent Internal audit report of AEPSC billing systems
4.4	Existing process and controls documentation related to ensuring that all employees have completed the required training (e.g., identification of required employees, monitoring of training participation, etc.)
4.5	Is it possible to run a report showing all employees who have taken the training and who haven't. If so, please provide.
4.6	Existing process and controls documentation related to granting access rights to facilities

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#	Data Requested
4.7	Please list all types of customer information that are categorized as "proprietary customer information" under the Corporate Separation Plan.
4.8	Is there a way to determine the geographic location of a transaction by account string or other identifier in the transaction?
4.9	Existing documentation on facilities charge back (allocation) methodology
5.1	List of employees who have access to IT systems relevant to corporate separation (chapter 4901) including department
5.2	Please provide controls and procedures documentation around the access to such systems (e.g., updating the authorized personnel listing to address transferred or terminated employees, detective controls such as monitoring access logs for anomalies, etc.)
5.3	For the IT access log we received, could we receive an explanation (legend) of the first two entries on the log?
6.1	Descriptions of Accounts (see attachment 1 for listing)
6.2	Descriptions of Journal IDs (see attachment 2 for listing)
6.3	Accounting systems documentation and flow charts (including work order system, time reporting, etc)
7.1	We reviewed the list of affiliated agreements in the CAM and would like to see copies of the following agreements by January 21st:
7.1.a	Mutual Assistance Agreement – 7/30/87
7.1.b	Amendment 1 to the Amended Coal Washing Agreement – 1/1/97
7.1.c	Agreement between CSP and AEP Energy Services – 9/27/96
7.1.d	System Transmission Integration Agreement – 6/15/00
7.1.e	AEP Co. Inc. and its Consolidated Affiliate Tax Agreements regarding methods of Allocation Consolidated Income Taxes – 6/15/00
7.1.f	Purchase Contract Agreement between CSP and Franklin Real Estate
7.1.g	Unit Power Agreement between AEP Generating Company (Lawrenceburg) and CSP – 8/14/07
7.1.h	Cook Coal Terminal Coal Transfer Agreement – 6/17/83
7.2	Also, we received 3 agreements with our last request that were not on the listing in the CAM. Can you explain why these were not included? They are:
7.2.a	Attachment 3 – Related to Tax (2008)
7.2.b	Attachment 12 – Note from AEP to CSP
7.2.c	Attachment 13 – Note from AEP to OPCO
8.1	Attached is the backup support we received for affiliate transaction sample #1. Could we see the agreement that pertains to this transaction (Transmission Facilities Agreement dated March 1, 1963, as amended by Modification NO.1 dated September 1, 1965, Modification NO.2 dated March 1, 1967, and Modification NO.3 dated March 20, 1982, between Ohio Power Company and Wheeling Power Company)?

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#	Data Requested
8.2	For samples #2 and #23 we received time cards as support (hours), but we did not receive pay rates to go with the hours worked in order to verify the labor dollars. Could we get the employee pay rates for these or an alternative way to verify this? Also, could we get support that shows the labor loadings that also got allocated for these?
8.3	The sample of affiliate transactions includes affiliates that are not listed in the CAM (Document Number 01-02-02). Could you explain why these are not listed as affiliates in the CAM?
8.3.a	328: AEPES US Gas Trading
8.3.b	270: Cook Coal Terminal
8.3.c	357: JMG Funding Ltd Partnership
8.3.d	377: AEG – Dresden
8.3.e	331: AEPES Power Trading
8.3.f	122: AEP System Pool
8.3.g	375: AEG – Lawrenceburg
8.4	We noted that the creditors of JMG have recourse to Ohio Power Co. for their lease payment. Please explain this in the context of financial arrangements?
9.1	Please confirm that there are no electric retail service providers in the AEP service territory.
9.2	For the booklet titled “Welcome to American Electric Power” – when is this sent to the customer? Is it sent to all customers?
9.3	The number of employees on the employee listing we received does not equal the number of employees on the listings showing which employees completed or did not complete the code of conduct/Ohio Rules of the Road training. Can you provide an explanation as to why the number of employees do not match for these?
10.1	Per the Corporate Separation Plan, §4901:1-37-08 (A)-(J), a copy of the minutes of each board of directors meeting shall be maintained for a minimum of three years. Could you please provide the following Board of Director meeting minutes:
10.1.a	Jan-07
10.1.b	Jun-08
10.1.c	Jun-09
10.2	Do AEP Ohio Companies jointly purchase fuel with any of their affiliates? If so, please describe the cost allocation process.
11.1	Risk executive committee minutes, agendas, presentations, etc. from June - December 2009
11.2	Risk report that was presented to the Audit committee from June - December 2009
11.3	Enterprise Risk management plan or assessment model for 2009

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#	Data Requested
12.1	For sample #5: It appears that the amount is based on total assets. Why do the total assets not tie to the total assets on the December 2009 statistics we received? Also, for some work orders, there are multiple allocation factors that could be used. Could you provide a summary of how the allocation factor to use is determined? For example, why was total assets used for this sample?
12.2	For sample #6: Can you provide a description of what this transaction is? It appears that this is a settlement transaction. Could you explain what type of costs this is settling?
12.3	For sample #21: Can you provide a description of what this transaction is for? It appears that it is for meter sales. Only two line items have a description that say SWEPCO in them. Can you explain the transactions that are taking place to get this SWEPCO total?
12.4	Also, please see the attached for an additional question regarding Transmission access rights.
13.1	Please provide a reconciliation that shows how the general ledger ties to the following 3 rd quarter financial statement line items:
13.1.a	OPCo – Accounts Payable – Affiliated Companies
13.1.b	OPCo – Accounts Receivable – Affiliated Companies
13.1.c	CSP – Accounts Payable – Affiliated Companies
13.1.d	CSP – Accounts Receivable – Affiliated Companies
13.2	Also, regarding your response to data request 2.05 (see attached), can you confirm that AEP T&D Services LLC did not engage with any consultants or contractors in 2009? How does this company operate without any employees? Who makes purchases for this company related to purchase made in affiliated transaction #37?
14	As discussed, please see below for additional information we would like to receive regarding the affiliated transactions that we sampled.
14.1	For all 40 transactions, we would like to see the following:
14.1.a	The agreement(s) that relate to the transaction
14.1.b	For transactions involving allocations, please provide detail on how the allocation was done including which allocation factors were used, which benefitting companies were selected and why. If allocation occurs manually, please provide support for how allocation was done along with underlying financial and operating data.
14.2	Please provide a description (why transaction is needed, what it is for, etc) of the transaction that is taking place for the following samples:
14.2.a	Sample #8
14.2.b	Sample #10
14.2.c	Sample #15
14.2.d	Sample #18
14.2.e	Sample #20
14.2.f	Sample #24
14.2.g	Sample #25
14.2.h	Sample #31
14.2.i	Sample #32

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#	Data Requested
14.2.j	Sample #33
14.2.k	Sample #34
14.2.l	Sample #35
14.2.m	Sample #36
14.2.n	Sample #37
14.2.o	Sample #38
14.2.p	Sample #39
14.2.q	Sample #40
14.3	Please explain how the support for the following transactions tie back to the line item in our sample/journal entry:
14.3.a	Sample #4
14.3.b	Sample #7
14.3.c	Sample #22
14.3.d	Sample #29
14.3.e	Sample #34
14.3.f	Sample #38
14.4	Please provide explanations for the following transaction specific questions:
14.4.a	Sample #15 - Description states that this is "to record associated electric billings per MACSS - Ohio Power." What does MACSS stand for?
14.4.b	Sample #24 – It looks like this journal entry is to correct an error. How was this error detected?
14.4.c	Sample #35 – We are not able to open the support for this transaction “Sample #35-3 sub selection backup.” Could you please try sending a new copy?
15.1	Attachment 1 – Request regarding the CSP and OPCo's master allocation tables including explanations on why certain benefitting locations and allocation factors were used along with request for work order request forms.
15.2	Attachment 2 – Request regarding employee labor hours from companies outside of Ohio charging labor to Ohio companies.
15.3	Attachment 3 – Request on departments and employees with access to transmission IT systems.
16.1	Attached is a list of employees that are on the IT list, but are not on the master list we received. Could you provide an explanation as to why these employees are not on the master listing?
17.1	We noted that the Corporate Separation and Code of Conduct training is required by all new employees in the Columbus Southern Power, Ohio Power, and Service Company employees who reside in Ohio. What are the requirements for employees who transferred from one company to another, for example, from Virginia to Ohio?
18.1	For samples #2 and #23, we received time cards. Could we get the payrates of the employees along with cost type details, regular labor, sick time ladding, etc.
18.2	For sample 4, we received the balance sheet, but I don't see how the accounts tie to the transactional amount. Could you show how this ties?

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#	Data Requested
18.3	For sample 5, the agreement lists allocation factors in the exhibit, but Total Assets for Legal services is not listed. Could you explain how this allocation factor was chosen?
18.4	For sample 8, the agreement listed is "Agreement between Ohio Power Company and AEP Energy Services." I don't think we received this agreement. Could you please provide?
18.5	For samples #15 and #16, rather than an agreement, a reference to section 3.06.02 of the CAM is provided. Are there agreements for these transactions? If so, could you please provide?

	Additional Data Requested
	Provision 1.1 of the Corporate Separation Plan states the following: "Each electric utility and its affiliates that provide services to customers within the electric utility's service territory shall function independently of each other" Please provide AEP's definition of affiliates that provide services to customers within the electric utility's service territories and provide a listing of these affiliates?
	With regard to AEP's response to our data request 13.2 from this morning, I have the following clarifying question:
	<p>Was this contractor whom AEP T&D Services LLC used during 2009 also been engaged by CSP or OpCo in the last three years? This is necessary to verify AEP's earlier response to our request 3.03 (or 2.05 per AEP's convention) regarding shared consultants and shared independent contractors.</p> <p>In addition, we have the following observation: Based on AEP's response that AEP T&D Services LLC relies on employees from the operating companies which also demonstrated by the fact that the material was purchased by CSP and charged back to AEP T&D, we interpret that there are shared employees between CSP and AEP T&D Services. The listing of shared employees should be maintained in the CAM. To our earlier request (BT request 3.02, a request for the listing of shared employees maintained per the CAM), AEP stated that there are no shared employees. It appears that AEP is not in compliance with the CAM requirement 7.1.D.4.</p> <p>Please let me know if AEP disagrees with our observation and provide support for its position.</p>
	Why should this person/department/functional group need an access to "non-public", "real time" transmission data? Please provide justifications for each department / functional group. (See attachment for table)
	Please provide why these employees didn't complete the OH CSP code of conduct training? Please provide the location of these employees. Also, please provide support for whether they have taken other applicable code of conduct training related to non-public, real time transmission data. (see attachment for table)
	With regard to sample transactions 18, 21, 25, 31, 36, and 39, (1) please provide support for transaction costs. According to the CAM, this should be the net book value of the asset. (2) For the transactions over \$50,000, please provide support for the completion of legal review following the CAM procedures. (3) Also, please explain why indirect costs are not included in the transaction costs. Per 4901:1-37-08 (E), the method for charging costs and transferring assets should be based on fully allocated costs.

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	Additional Data Requested
	<p>With regard to sample transaction 28, 29, and 32, we have the following questions:</p> <ol style="list-style-type: none"> 1. The allocation is based on the total peak load ratio. We compared the statistics against the table previously provided by AEP (Data request 2, also attached here) and noted a substantial difference in peak loads of PSO and SWEPCO. See column AS in the attachment. Due to the magnitude of the variance, I don't think that the timing difference would be the main contributing factor (this is Dec while the sample transactions are from Sept and Nov). Please explain why the allocation of sample transactions uses substantially lower peak load for PSO and SWEPCo compared to December 2009 statistics. 2. With regard to sample 28, page 8 shows both estimated and actual peak loads. September costs were allocated based on the September estimated peak load ratio. Is there a process to true-up the allocation when actual peak load data becomes available? 3. With regard to sample 29, November costs were allocated based on June estimated peak load ratio shown in the sample 28 support (page 8). Is there a process to true-up allocation when actual peak load data becomes available? <p>With regard to sample 32, please provide operating statistics (peak load data) used to calculate page 8, indicating which month the data represents and whether the data was actual or estimate.</p>
	<p>Could you provide AEP's definition of "convenience payments"? Also, under what circumstances, does AEP use "convenience payments"?</p> <p>Also, for sample 37, I would like to understand why CSP got involved in this transaction. Based on your explanation and the invoice coding, AEPSC received the invoice from the third party and processed it. If so, why was the transaction set up so that intercompany A/R sits at CSP (i.e., AEP T&D Services is billed through CSP)? The third-party invoice was clearly specific to the New Albany project – why wasn't AEP T&D Services directly billed but rather the "convenience payment" set-up was used through CSP?</p>

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Summary: Audit Audit Report by Baker Tilly Virchow Krause, LLP electronically filed by Ms. Jisu Hong on behalf of Baker Tilly Virchow Krause, LLP