FILE

19

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company to Establish Environmental Investment Carrying Cost Rider.	:	Case No. 10-155-EL-RDR
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company to Update Each Company's Enhanced Service Reliability Rider.	:	Case No. 10-163-EL-RDR
In the Matter of the Application of Columbus Southern Power Company to Update its gridSMART Rider.	:	Case No. 10-164-EL-RDR

COMMENTS
AND
RECOMMENDATIONS

SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

April 30, 2010

TABLE OF CONTENTS

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company to Establish Environmental Investment Carrying Cost Rider.	:	Case No. 10-155-EL-RDR
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company to Update Each Company's Enhanced Service Reliability Rider.	:	Case No. 10-163-EL-RDR
In the Matter of the Application of Columbus Southern Power Company to Update its gridSMART Rider.	:	Case No. 10-164-EL-RDR

COMMENTS AND RECOMMENDATIONS

SUBMITTED ON BEHALF OF THE STAFF OF THE PUBLIC UTILITIES COMMISSION OF OHIO

INTRODUCTION

In February, 2010, AEP Ohio Operating Companies filed separate applications in each of the above dockets. By Attorney Examiner Entry dated April 8, 2010, interested parties and the Commission's Staff were invited to submit comments/objections to any or all of these applications. This submission is timely made on behalf of the Commission's Staff.

DISCUSSION

CASE NO. 10-155-EL-RDR

Background

On February 2, 2010, Columbus Southern Power Company (CSP) and Ohio Power Company (OP), collectively the Applicants or Companies, filed an application to establish an Environmental Investment Carrying Cost Rider (EICCR) in accordance with the Commission's Opinion and Order and Entry on Rehearing in their ESP cases, Case Nos. 08-917-EL-SSO for CSP, and 08-918-EL-SSO for OP (hereinafter referred to as "ESP Cases"). CSP and OP proposed an EICCR to recover their respective revenue requirement for 2009, 2010, and 2011 based on environmental investment expenditures made during 2009. The proposed initial EICCR rate is 4.31451% of Non-FAC generation charges for CSP and 4.18938% of Non-FAC generation charges for OP.

Staff's Review

During the Staff's investigation, the Applicants advised that a work order related to Conesville Unit 5 scrubber draw-off lines should have been included in the filing for CSP. The total amount to be included for this work order is $317,301. Staff reviewed the work order and recommends increasing 2009 environmental additions reported on CSP Schedule 2 for Conesville Unit 5 Scrubber costs by $317,301.

The Applicants also advised the Staff of a work order that was inadvertently included in the filing for OP, which should not have been included, for Cook Coal in the amount of $2,097,059. The Staff reviewed the work order and recommends eliminating the Cook Coal amount from the 2009 environmental capital additions reported on OP Schedule 2.

The EICCRs include property tax factors embedded in the carrying charge rates of 14.94% and 13.23% reported on CSP Schedule 3 and OP Schedule 3, respectively. The carrying charge rates on these schedules were approved by the Commission in Applicants' ESP cases. According to Ohio law, certified pollution control facilities are exempt from personal property taxes. The Applicants provided the Staff with the information relative to facilities subject to property taxes, facilities exempt from property taxes, and the property tax factor to remove exempt projects from the carrying charge rates.

The Staff recommends decreasing the carrying charge rates to reflect the removal of property taxes for exempt certified pollution control facilities. The resulting carrying charge rates are decreased to 13.31% for CSP and 13.14% for OP.

The Staff recommendations decrease the Applicants' proposed total revenue requirements from $28,277,000 to $26,004,000 for CSP and from $36,635,000 to $33,899,000 for OP. Staff recommendations also decrease CSP's proposed EICCR from 4.31451% to 3.83218% of Non-FAC generation charges and decreases OP's proposed EICCR from 4.18938% to 3.87650% of Non-FAC generation charges.

CASE NO. 10-163-EL-RDR

Background

In the ESP cases, AEP Ohio proposed four major programs relating to service reliability. The Commission found that the Companies' enhanced vegetation initiative, with Staff's additional recommendations, was a reasonable program that would advance state policy, while deferring inclusion of the remaining programs for potential future adoption.[1] The Commission approved the Enhanced Service Reliability (ESR) incremental spending plan presented in the ESP cases at a level of $31.5 million in year one of the program, $34.8 million in year two, and $38.1 million in year three.[2] Accordingly, the Commission approved the ESR Rider, subject to annual reconciliation, to recover the Companies' prudently incurred costs.

CSP and OP filed an application on February 11, 2010 reflecting an increase of .51419% for CSP and an increase of .10088% for OP.

Staff's Review

The annual reconciliation of the Companies' incurred costs consists of two parts. The first is the review of the actual incurred costs, including the Operation and Mainten-

---

1 *In the Matter of the Application of Columbus Southern Power Company for Approval of its Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Assets*, Case Nos. 08-917-EL-SSO and 08-918-EL-SSO (hereinafter *In re AEP ESP*) (Opinion and Order at 34) (March 18, 2009).

2 *In re AEP ESP* (Opinion and Order at 33) (March 18, 2009).

ance (O&M) expenses and the equipment purchased (plant). The second part of the review is the review of the "Carrying Charge" rates used to determine the revenue requirement from the investment in plant.

Progress of Enhanced Program

According to a schedule worked out with Staff, the Companies agreed to complete end-to-end clearing on 250 circuits during 2009. The Companies report that during that period they actually achieved such clearance on only 238 circuits, which constitutes a 4.8 percent shortfall. Staff acknowledges that the Companies got a late start on ramping up their program due to the timing of the Commission's order approving the ESR rider. Staff nevertheless expects the Companies to adhere to the circuit clearing schedule that appears on page three of their application in this case. Accordingly, Staff expects the Companies to complete end-to-end clearance on another set of 250 circuits that are scheduled for 2010 and also to clear in 2010 the additional 12 circuits needed to make up the 2009 shortfall. Taking this action will put the Companies back on schedule by completing end-to-end clearing on 500 circuits during the two-year period 2009 - 2010.

Financial Audit

Staff began its audit by obtaining a detailed list of all charges included in the Companies' application, grouping those lists by cost category, and selecting samples based on relative dollar value. Staff then requested documentation supporting the samples it selected. After reviewing this documentation, Staff requested additional documentation as needed until it was either satisfied that the costs were substantiated or concluded that an adjustment was warranted.

Because 96 percent of the charges consisted of vegetation management vendor invoices, Staff selected a large sample of such invoices for review. Staff chose these invoices by combining a list of circuits on which the Companies had made significant vegetation management expenditures for each circuit, with another list of circuits scheduled to have vegetation management completed in 2009. By combining the two lists, then choosing circuits from all seven of the Companies' Ohio districts, Staff selected 43 circuits for review. Staff reviewed all of the 285 vegetation management invoices for the 43 circuits, checking for accuracy of the amounts for labor, equipment, and materials, as well as whether the expenditures were charged to maintenance or capital. For a sample of these invoices, Staff also checked the underlying timesheets to verify that they supported the invoiced charges.

Physical Audit

Staff made on-site inspections of the 43 circuits discussed above to physically verify that vegetation line clearance was performed as scheduled in 2009. This sample was based on circuits the Companies had planned to clear during 2009 and for which paid invoices indicated significant expenditures for such clearance. The circuits audited showed evidence that vegetation line clearance work was completed in accordance with the Companies' approved vegetation management program.

Adjustments

During its audit, Staff investigated accounts payable charges the Companies made in December 2009 to accrue the cost of services provided by contractors in 2009 but that would not be paid for until 2010. Although these charges totaled $4,135,815, the Companies documented only $2,000,882 worth of invoices for work performed in 2009 but paid for in 2010. Staff recommends exclusion of the $2,134,934 in undocumented charges.

Also during its audit, Staff identified $16,445 in charges the Companies recorded during January 2009 for internal Company labor that was performed during December 2008, which was prior to the onset of the ESR Rider. Staff therefore recommends the exclusion of these charges as well.

Carrying Charge Review

The "Carrying Charge" revenue requirement is calculated by applying the "Carrying Charge" rates to the investments to determine the revenue requirement for the 2009 actual period and the requirement projected for 2010. The "Carrying Charge" rate consists of: (1) a rate of return factor, (2) a depreciation expense factor, (3) a Federal Income Tax (FIT) factor, (4) and a combined property taxes and Administrative and General (A&G) factor.

During the audit Staff noted the rate of return factor used in the 2009 actual cost calculations was not the same as reflected in the projected period. The factor in the 2009 actual calculation was based on actual interest rates updated monthly. The rate of return factor for the projected calculation was based on CSP Schedule 3 and based on Exhibit PJN 10 – ESP Case Nos. 08-917-EL-SSO for CSP, and 08-918-EL-SSO for OP. In that exhibit, the rate of return factor is based on the Weighted Average Cost of Capital (WACC) which was 8.11% for both CSP and OP. The actual interest cost used by the Company includes the effect of short-term interest rates, which causes the cost to vary monthly and requires extensive review. Therefore Staff recommends that the Companies be consistent with the ESP case order and use the same WACC as approved in that filing. This WACC rate would be subject to update when the Commission approves another debt/equity structure.

Staff also noted the depreciation factor used for the actual revenue requirement and the projected revenue requirement is different. The depreciation factor used for calculating the 2009 actual revenue requirement updates the depreciation factor to reflect current depreciation rates, while the projected revenue requirement is based on the depreciation factor as approved in the ESP case. It is Staff's recommendation to reflect the depreciation factor based on the latest approved factor that was approved in the ESP cases to calculate the revenue requirement for the actual and projected periods 2009 – 2010.

The FIT factor normalizes the effect of accelerated depreciation to straight line depreciation. The factor is the same as that approved in the Companies' ESP order and has been consistently applied. Staff recommends no changes unless there is an approved change in the depreciation factor.

The Property taxes and A&G factor is the same as that approved in the ESP cases, and has been consistently applied for both the actual and projected revenue requirements. A review of the components show the revenue recovery rates (13.52% for CSP and 13.31% for OP) for the property taxes are based on a ratio of the booked property tax as of 12/31/2007 to the total plant. This factor was developed for use in the ESP cases relative to the applicants' environmental plant investment. According to Ohio law certified pollution control facilities are exempt from personal property taxes. Also, the certified pollution control facilities are generation related property; the non-certified plant is assessed property taxes on 24% of the true value. The instant filing reflects investment in the *distribution* function. The property tax for distribution related property is assessed on 85% of the true value. It is Staff's opinion the factor that includes the property tax component of the carrying cost developed in the ESP case should be adjusted accordingly. Staff recommends using the revised rates of 15.14%, a 1.62% increase over the rate approved in Case No. 08-917-EL-SSO for CSP, and 14.43%, a 1.12% increase over the rate approved in Case No. 08-918-EL-SSO for OP.

The total effect of reflecting the revised carrying charge rates results in an increase of $60,893 for CSP and $58,248 for OP.

CASE NO. 10-164-EL-RDR

Background

In CSP's ESP proceeding (Case No. 08-917-EL-SSO), it proposed gridSMART Phase I, a smart grid deployment proposal within CSP's service territory involving three primary components: Advanced Meter Infrastructure (AMI), Home Area Network (HAN) and Distribution Automation (DA). In the ESP cases, the Commission authorized CSP to establish a gridSMART Rider, subject to annual reconciliation.[3]

In conformance with the Commission's authorization of such annual filings to reconcile the gridSMART Rider to annual revenue requirements for actual gridSMART Phase I investment, CSP seeks authority to establish a new rate for its gridSMART Rider of 2.30342%.

Staff's Review

The annual reconciliation of the Company's incurred cost consists of two parts. The first is the review of the actual incurred costs, including the Operation and Maintenance (O&M) expensed and the equipment purchased (plant). The second part of the review is the review of the "Carrying Charge" rates used to determine the revenue requirement from the investment in plant.

Financial Audit

Staff requested detailed lists of all Capital and O&M charges included in the Company's application, grouped those lists by program and cost category, and selected samples based on relative dollar value. Staff then requested documentation supporting the samples it selected. After reviewing this documentation, Staff requested additional

3 *In re AEP ESP* (Opinion and Order at 38) (March 18, 2009).

documentation as needed until it was either satisfied that the costs were substantiated or concluded that an adjustment was warranted.

Advanced Metering Infrastructure

In Staff's audit of Advanced Metering Infrastructure (AMI) gridSMART capitalization items, Staff found double accounting entries of meter purchase invoices and accounts payable accrual entries. This resulted in a double counting of capital investments, which was corrected in a period outside of this audit. Therefore, Staff recommends an adjustment of $10,747,780 to 2009 capital expenditures for AMI.

O&M Labor Expense

Any allowable O&M internal labor/overheads, fringe benefits, and stock-based compensation allocated to gridSMART O&M expenses should be incremental and specifically related to implementation of the gridSMART project in order to prevent double recovery of expenses. Based upon the information provided, Staff did not find any evidence that these expenses were incremental. The O&M internal labor/overheads, labor fringe, and stock-based compensation amounts included in 2009 are $120,895, $47,375, and $3,486 respectively, for a total amount of $171,756. Staff recommends an adjustment of $171,756 to remove these expenses.

Other O&M Expense

Columbus Southern Power seeks to recover the cost related to the interest center through the gridSMART Rider. Staff does not recommend recovery of any Interest

Center costs through the rider because it is not part of the gridSMART deployment. This position is consistent with the exclusion of Duke Energy Ohio's Envision Center Costs in Case No. 09-543-GE-UNC. Staff recommends an adjustment of $152,096 to reflect the removal of these expenses.

Physical Audit

After identifying the locations of all major equipment purchased in 2009 for the DA Integrated Volt Var Control (IVVC) program, Staff physically verified all such equipment located at substations and a sample of such equipment that was installed on the associated circuits. The substations included: East Broad Station, Blacklick Station, Gahanna Station and Karl Road Station. No discrepancies were noted during these audits.

Carrying Charge Review

The "Carrying Charge" revenue requirement is calculated by applying the "Carrying Charge" rates to the investments to determine the revenue requirement for the 2009 actual period and the requirement projected for 2010. The "Carrying Charge" rate consists of: (1) a rate of return factor, (2) a depreciation expense factor, (3) a FIT factor, (4) and a combined property taxes and Administrative and General factor.

During the audit Staff noted the rate of return factor used in the 2009 actual cost calculations was not the same as reflected in the projected period. The factor in the 2009 actual calculation was based on actual interest rates updated monthly and the debt portion was adjusted. The rate of return factor for the projected calculation was based on CSP

Schedule 3. In that exhibit, the rate of return factor is based on the WACC, which was 8.11%. The actual interest cost used by the Company includes the effect of short term interest cost which causes the rate to vary monthly and requires extensive review, therefore Staff recommends that the Companies be consistent with the order in the ESP and use the same WACC as approved in that filing. This WACC rate would be subject to update when the Commission approves another debt/equity structure.

Staff also noted the depreciation factor used for the actual revenue requirement and the projected revenue requirement is also different. The depreciation factor used for calculating the 2009 actual revenue requirement updates the depreciation factor to reflect current depreciation rates, while the projected revenue requirement is based on the depreciation factor as approved in the ESP case. It is staff's recommendation to reflect the depreciation factor based on the latest approved factor that was approved in the ESP case to calculate the revenue requirement for the actual and projected periods 2009 – 2010.

The FIT factor normalizes the effect of accelerated depreciation to straight line depreciation. The factor is the same as approved in the Companies' ESP order and has been consistently applied, therefore staff recommends no changes unless there is an approved change in the depreciation factor.

The Property taxes and A&G factor is the same as that approved in the ESP case, and has been consistently applied for both the actual and projected revenue requirements. A review of the components show the revenue recovery rates (13.52%) for the property taxes are based on a ratio of the booked property tax as of 12/31/2007 to the total plant. This factor was developed for use in the ESP case relative to the applicants' environmental plant investment. According to Ohio law certified pollution control facilities are exempt from personal property taxes. Also, the certified pollution control facilities are generation related property; the non-certified plant is assessed property taxes on 24% of the true value. The instant filing reflects investment in the *distribution* function. The property tax for distribution related property is assessed on 85% of the true value. Based on these changes it is Staff's opinion the factor that includes the property tax component of the carrying cost developed in the ESP case should be adjusted accordingly. Staff recommends using the revised rates of 15.14%, a 1.62% increase over the rate approved in the ESP case.

The total effect of reflecting the revised carrying charge rates results in an increase of $560,378.

Other Comments

During its audit, Staff identified $9,554 in AFUDC charges, which are inappropriate given that CSP has already been recovering gridSMART costs through the rider. CSP acknowledged this error and made an adjustment to remove these charges in March of 2010. Staff considers this action reasonable given the relatively small impact of this error.

CONCLUSION

The Staff respectfully requests that the Commission give studied consideration to the comments and observations contained herein.

Respectfully submitted,

Richard Cordray
Ohio Attorney General

Duane W. Luckey
Section Chief

Thomas W. McNamee
William L. Wright
Assistant Attorney General
Public Utilities Section
180 East Broad Street, 6th Floor
Columbus, OH 43215-3793
614.466.4397 (telephone)
614.644.8764 (fax)
thomas.mcnamee@puc.state.oh.us
william.wright@puc.state.oh.us

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments and Recommendations** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following parties of record, this 30th day of April, 2010.

William L. Wright
Assistant Attorney General

Parties of Record:

Marvin I. Resnik
Steve T. Nourse
American Electric Power Service Corp.
1 Riverside Plaza, 29th Floor
Columbus, OH 43215
614.716.1606 (telephone)
614.716.2950 (fax)
miresnik@aep.com
stnourse@aep.com

Terry Etter
Richard C. Reese
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
10 West Broad Street
Suite 1800
Columbus, OH 43215
614.466.8574 (telephone)
614.466.9475 (fax)
etter@occ.state.oh.us
reese@occ.state.oh.us

Sam Randazzo
Lisa G. McAlister
Joseph M. Clark
McNees, Wallace & Nurick
21 East State Street, 17th Floor
Columbus, OH 43215
614.469.8000 (telephone)
614.469.4653 (fax)
sam@mwncmh.com
lmcalister@mwncmh.com
jclark@mwncmh.com

David C. Rinebolt
Colleen L. Mooney
1431 Mulford Road
Columbus, OH 43212
614.488.5739 (telephone)
419.425.8862 (fax)
drinebolt@aol.com
cmooney2@columbus.rr.com