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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus)
Southern Power Company to Update its) Case No. 10-164-EL-RDR
gridSMART Rider.)

COMMENTS OF OHIO PARTNERS FOR AFFORDABLE

Introduction

On February 11, 2010, the Columbus Southern Power Company ("AEP" or "Company")) requested approval to modify the existing gridSMART Rider, pursuant to the *Opinion and Order* ("SSO Order"), and the *Entry on Rehearing* ("SSO Entry on Rehearing") issued by the Public Utilities Commission of Ohio ("PUCO" or "the Commission") on March 18, 2009 and July 23, 2009, respectively. The SSO Entry on Rehearing authorized AEP to spend \$64 million on its gridSMART pilot. SSO Entry on Rehearing at 20. The SSO Entry on Rehearing set the smartGRID Phase I incremental revenue requirement at \$32 million. *Id.* The investments are subject to a prudency review. *Id.* At 24.

Subsequent to these decisions, AEP was notified on October 27, 2009 that it was chosen to receive one of the U.S. Department of Energy Smart Grid Grants, which provide matching funds for ratepayer investments in smart grid pilots.¹ AEP was awarded \$75,161,246 for a project with a total cost of \$150,322,492.² The grant award anticipates a broader and more expensive project than that approved by the Commission. SSO Entry on Rehearing at 20, Application at 3-4, and Attachment

¹ <http://www.energy.gov/news2009/8216.htm>

² http://www.energy.gov/news2009/documents2009/SG_Demo_Project_List_11.24.09.pdf

A of the aforementioned *Application*. AEP indicates that the "cost of the additional work will not be collected through the gridSMART Rider." *Application* at 3-4. The Company also admits to an over-recovery in 2009, but contends that "Investments would be "caught up" in 2010". *Application* at 4-5. AEP requests establishment of a new rate for the gridSMART Rider of 2.30342%.

Comments

- I. The AEP gridSMART Rider requested in the *Application* exceeds the level approved by the Commission in Case No. 09-917-EL-SSO and should be reduced to conform with the decisions in that case.

In Case No. 08-917-EL-SSO, the Commission approved recovery of gridSMART costs over three years. The Direct Testimony of David M. Roush defined the revenue requirement for this period. Companies' Exhibit I. The Commission authorized recovery at this level in the *SSO Order* and *SSO Entry on Rehearing*.

AEP proposes that the first year revenue recovery not be trued up as required in the *SSO Entry on Rehearing*. Instead, the Company requests that the Commission ignore the over-recovery in the first year of the program and continue the recovery that was projected for the second year without any adjustment for over-recovery. AEP opines that this is justified because U.S. DOE would not count expenditures made 90 days prior to award notification so the Company delayed expenditures under the program.

The Company has collected over \$7.5 million from its ratepayers that it has not spent on gridSMART. *Application* Attachment B. The Attachment calculates a

revenue requirement for 2010 in excess of that approved by the Commission. The *Application* also presumes the expenditure of the over-recovery.

AEP provides no support for its assertion that spending will meet the revenue requirement it proposes for 2010, especially when the over-recovery from 2009 is included. Smart grid implementation is a nationwide phenomenon, creating significant demand for equipment and knowledgeable staff and consultants. The high demand may well result in additional delays in advancing the program. In addition, AEP notes in its *Application* that it is still negotiating the final grant agreement with the U.S. Department of Energy. Delay is typical for major capital projects in the utility industry, as the Commission is well aware. That is the reason the Commission requires a prudency review and a true-up of the gridSMART Rider.

OPAE believes the Commission should embark upon the required prudency review and true-up the Rider by authorizing the recovery of the level of expenditure approved in Case No. 08-917-EL-SSO, less the \$7.5 million over-recovery. Should expenditures exceed revenues collected under the Rider, the Company can request a true-up in its next filing, as authorized by the Commission. Ratepayers should not be required to provide utilities with interest-free loans, particularly during this time of economic trial.

- II. The Commission has not approved the Enhanced gridSMART Demonstration Project so costs associated with the expanded scope and additional reporting and analysis activities are not recoverable from ratepayers.

The *Application* indicates that the U.S. Department of Energy Smart Grid Grant proposal has expanded the demonstration project beyond the scope approved

in Case No. 08-917-EL-SSO. The Commission has not reviewed or approved the so-called 'enhancements'. Ratepayers will ultimately pay for the enhancements even if some of the equipment is 'donated' because it will become part of rate base. As a result, the Commission should review the proposed expanded scope, determine whether the expansion will be used and useful to customers, and specifically approve cost recovery. Demands by the U.S. Department of Energy for an expanded pilot do not eliminate the need for Commission approval when ratepayers' precious dollars are at stake.

- III. The Commission has not approved recovery of the \$109 million AEP has requested for gridSMART Phase I.

AEP interprets the *SSO Order* and the *SSO Entry on Rehearing* as approving the "entire \$109 million gridSMART Phase I initiative..." This is not the case. While the total projected cost may well be \$109 million (or the \$150 million project in the U.S. Department of Energy Grant), the *SSO Entry on Rehearing* only approves recovery of half the cost of a \$64 million program, the amount to be expended during the period of the ESP. Collection of any additional funding must be separately authorized by the Commission after a prudency review in a separate proceeding or as a component of the next SSO proceeding.

- IV. The Commission should modify the Rider, substituting an actual dollar amount for the percentage used by the existing rider to ensure transparency for customers.

Customers deserve greater transparency than provided for in this *Application*.

The proposed gridSMART rider is set as a percentage increase in base distribution

revenues. A percentage does not tell customers what the smart meters and other elements of gridSMART are actually costing them. The Commission should modify the Rider to put a dollar amount in the tariff so customers can readily determine what this foray into the future is costing them. One cannot ascertain whether the projected usefulness of the smart grid exceeds the cost unless one clearly understands the cost of the investment and the savings resulting from the investment.

Conclusion

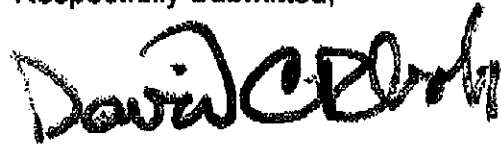
The Commission authorized a limited recovery for AEP's gridSMART initiative and required a true-up to protect customers from over-recovery by the Company. Large projects often fail to move forward on the schedule as planned. AEP's proposed integrated combined cycle power plant is a perfect example of how schedules can be altered beyond recognition. See Case No. 05-376-EL-UNC. Currently there is no support for the assertion in the *Application* that AEP will 'catch-up'. Its track record in 2009 certainly does not support the need for recovery of the level of expenditures approved in the SSO Order. Excuses do not justify charging ratepayers when work is not getting done. The Commission should follow its own decisions, true-up the rider based on the significant over-recovery by AEP and initiate the required prudence review.

The Commission should also not put ratepayers on the hook for costs associated with the expanded gridSMART program that is a part of the U.S. Department of Energy Smart Grid Grant. The Commission has not reviewed or

approved the expanded scope of the project. Ratepayers deserve a chance to scrutinize the proposal. The Commission should not substitute requirements set by the U.S. Department of Energy for Ohio's statutory ratemaking requirements.

Finally, the rider amount should be expressed in terms of the actual cost to ratepayers rather than as a percentage increase in base revenues. This will enable ratepayers to see what the smart grid projects are actually costing them.

Respectfully Submitted,



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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Comments was served by regular U.S. Mail upon the following parties identified below in this case on this 30th day of April, 2010.


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