

FILE

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

**In the Matter of the Application of
Columbus Southern Power Company to
Update its gridSMART Rider.**

Case No. 10-164-EL-RDR

PUCO

2010 MAY 10 PM 5:00

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**COLUMBUS SOUTHERN POWER COMPANY'S
REPLY COMMENTS**

Columbus Southern Power Company (CSP) filed an Electric Security Plan (ESP) in Case No. 08-917-EL-SSO wherein the Commission approved the Company's gridSMART Phase I initiative and authorized CSP to establish a gridSMART Rider, subject to annual reconciliation. (Opinion and Order, March 18, 2009, p. 38). On February 11, 2010, CSP filed this application as the first annual reconciliation of the gridSMART Rider. On April 8, 2010, the Commission issued an Entry establishing a comment cycle in this case, whereby initial comments were due April 30, 2010 and reply comments are due on May 10, 2010. In response to the comments filed by the Staff and intervenors, CSP hereby submits its reply comments. CSP's reply comments attempt to focus on areas where CSP disagrees with the comments filed by Staff and intervenors, though silence on any proposal that is inconsistent with the application should not be construed as acceptance by CSP.

I. RESPONSE TO STAFF COMMENTS

Advanced Metering Infrastructure

The Staff indicates (at 11) that its audit found double counting entries of meter purchase invoices and accounts payable accrual entries, recommending a \$10.7 million adjustment to exclude the expenditure.

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Technician _____ MAY 10 2010

The Company accrued \$8,789,680 for invoices not yet processed at the end of 2009 to assure that services rendered up to December 31, 2009 were booked on the Company's ledger in the proper period. Such unvouchered liability entries represent an estimate of the costs anticipated, where a physical invoice may not have been received yet. These entries routinely get reversed in the following month and the invoices are entered as received. At the end of December 2009, some invoices were processed but not removed from the accrual entry and thus counted twice in the filing. As such, the Company agrees it is appropriate to remove \$8,789,680 from the December Capital Balance for property with a 7 year depreciable life. Since the Companies agree to adjust this amount from the current filing, an adjustment will then need to be made to January 2010 actuals, so that the January 2010 capital expenditure will not be understated by the \$8,789,680 (for purposes of the subsequent rider update filing).

The additional \$1,958,100 Staff is recommending as a reduction is based on invoice support provided to Staff and journal detail based on Staff Data Request 4-1, Attachment 1. The invoice support showed that the \$1,958,100 was identified as journal INDUS70807 and included two invoices for \$979,050.24, invoice numbers 269088900 and 269088980. In addition, Invoice 269088900 was also provided to Staff as backup to journal APACC71256, appearing to be accounted for twice. Journal INDUS71373, shown in Staff Data Request 4-1, Attachment 1, was shown in summary form in the amount of \$979,050.24. Detail behind this entry shows three invoices 269089093, 269089166, and 269088900 in the amounts of \$979,050.24, \$979,050.24 and (\$979,050.24) to a net amount of \$979,050.24. INDUS70807 recorded invoice number 269088900 for \$979,050.24, INDUS71373 reversed invoice number 269088900 in the

amount of (\$979,050.24), and APACC71256 then shows where invoice 269088900 was recorded in the system for \$979,050.24, and only one time. Invoice 269088980, originally recorded in INDUS70807, was properly included in 2009 business and no adjustment is necessary for either invoice. The Companies submit that the additional \$1,958,100 was not accounted for twice and should not be adjusted out of the filing.

O&M Labor Expense

The Staff indicates (at 11) that its audit did not find evidence that O&M internal labor/overheads, labor fringe and stock-based compensation amounts included in 2009 were incremental, recommending a \$171,756 adjustment to exclude the expenses. As explained below, CSP believes that at a minimum \$166,728 of these expenses should remain within the gridSMART deployment costs for 2009. Thus, CSP is willing to *conditionally* accept a portion of Staff's proposed adjustment, being the \$5,028 difference between Staff's recommended adjustment of \$171,756 and \$166,728. The condition for CSP's partial acceptance is that the Commission approve the \$5,028 adjustment in this case without prejudice to resolution of incremental internal labor costs in future gridSMART Rider reconciliation proceedings.

Beginning on June 1, 2009 CSP established three new positions that that were specifically created to support the gridSMART project. These three employees committed time to the project equaling \$166,728 in O&M labor expenses. CSP has attached Exhibit A to these reply comments which contains supporting detail to further support this incremental internal labor cost. The remainder of the internal labor costs included (\$5,028) were labor costs of existing employees whose time was tracked and

specifically allocated to the project. The difference is relatively small in this case and does not necessarily present the need for a dispute, unless the Commission decides the issue with prejudice to future gridSMART Rider reconciliation proceedings.

While CSP agrees that only incremental labor costs directly attributable to the gridSMART initiative should be included in the gridSMART Rider, it will not always be the case that new, full-time positions are created to support the initiative. The gridSMART proposal in the *ESP Cases* included O&M dollars for internal labor within the gridSMART Project as approved by the Commission. Thus, the Commission approved the project knowing that internal labor costs were part of the proposal. Holding that only the internal labor costs for outside labor or new, full-time internal positions are recoverable through the rider would also provide an incentive to contract for external labor; such an approach may not utilize the lowest reasonable costs to be borne by ratepayers. Another example is that CSP's management may choose to hire a number of new field technicians needed to support deployment of the DA component of gridSMART but would actually divert the new hires to do more routine work while assigning more experienced, existing field technicians to do the gridSMART-related DA work as part of their assignments. That approach could jeopardize cost recovery if the Commission finds that only new employees could be recovered through the rider, even though the internal labor cost would be incremental in nature and appropriately incurred in connection with the gridSMART project. The Commission should accept the \$5,028 adjustment in this case without prejudice to resolution of incremental internal labor costs in future gridSMART Rider reconciliation proceedings.

Mobile Interest Center Exclusion

The Staff recommends (at 11-12) an adjustment of \$152,096 to exclude expenses relating to the Interest Center “because it is not part of the gridSMART deployment.” CSP’s Mobile Interest Center is being developed for education and for enrolling customers into the various gridSMART Programs within the gridSMART deployment area. This Mobile Unit allows customers to see what options are available to them and help educate them on their use. While it is important to install hardware and equipment, customer participation within the various programs is also an essential piece into making gridSMART successful. Therefore, CSP believes that the Mobile Interest Center should be kept as a piece in the gridSMART Rider.

Having materials that customers within the project area can read or watch in the comfort of their homes or businesses will be enough for some to understand what CSP is trying to accomplish with the gridSMART initiative and participate in dynamic pricing options if they choose. However, for others, they will need to touch, see and have the opportunity to discuss the various aspects of the project to understand the complete picture. The Mobile Interest Center will allow CSP to physically bring the message and the project details to targeted areas within the project’s boundaries, allowing customers to visualize the complete gridSMART picture, understand the project and sign up for various consumer programs if interested. The mobile display will be used at community festivals and events, city council meetings and other special activities.

CSP’s Mobile Interest Center is uniquely different than Duke’s Envision Center, referenced in Staff’s comments as supporting Staff’s recommendation. Duke’s facility was created prior to the start of any project implementation and specifically targets **only** thought leaders and community representatives by invitation only. It is designed as a

show piece around Duke's smart grid vision and not the actual implementation of smart grid devices. CSP's gridSMART Mobile Display not only educates the consumer about the project, its various programs and opportunities, it also informs the customer about energy efficiency and allows the customer the ability to ask questions and actively participate in the gridSMART Project.

II. RESPONSE TO OCC'S, OPAE'S AND IEU-OH'S ARGUMENT ABOUT THE SCOPE OF THIS APPLICATION

IEU states in its comments (at 7) that "the Commission should ensure any Order it issues in this proceeding cannot be interpreted as an approval of the gridSMART enhancements. The Commission should also indicate that it will investigate and rule upon whether CSP may collect the costs associated with the enhancements in a future CSP case." OPAE similarly indicates (at 4) that "the Commission should review the proposed expanded scope, determine whether the expansion will be used and useful to customers, and specifically approve cost recovery." OCC advances the misguided position (at 4-5) that CSP should give "assurance that the increased project costs of \$41.3 million will not be sought for recovery in a future distribution rate case or in a new rider, either by CSP or its affiliates."

The Commission plainly understood, when approving the ESP including the gridSMART Rider, that CSP's proposed annual revenue requirement approach was conservative and made the proposal more affordable by recouping the costs over a period of time that was longer than the ESP. As reviewed in CSP's application in this case (¶¶ 4-5), the Company's ESP proposal was never to recover the entire cost of the gridSMART Phase I investment during the three-year ESP term. Moreover, CSP was

clear in stating in its application (§ 8) that additional investment will need to be recovered from ratepayers as part of CSP's next SSO or through a general distribution rate increase. While there was no specific mechanism established for post-ESP recovery of the remaining gridSMART Phase I investment (this remains to be the case), it was made clear up front that the Commission approved the project as beneficial, required CSP to pursue federal funding, and agreed to approve prudently-incurred costs associated with the initiative. CSP undertook the project based on the Commission's assurances.

The Commission's July 23, 2009 Entry on Rehearing in CSP's *ESP Case*, Case No. 08-917-EL-SSO, clarified the Commission's intention (at 20) that "once CSP properly applies for and otherwise meets its obligations to receive federal funds to offset the total costs of gridSMART Phase I, the Commission will review its gridSMART Phase I expenditures and, once the Commission concludes that such expenditures were prudently incurred by CSP, the Commission intends to approve recovery of CSP's gridSMART Phase I costs." Because the Commission required CSP to pursue and obtain federal funding in connection with the proposed initiative and because the additional enhancements were added as a condition of getting the required federal funding, CSP submits that the Commission should declare in granting this application that the same standard applies: *prudently incurred costs relating to the enhanced gridSMART Phase I initiative, less federal funding and vendor in-kind contributions, should continue to be recoverable from ratepayers*. Under that approach, as with the original initiative as approved by the Commission, there will clearly be additional investment that will need to be recovered beyond the amounts being collected via the gridSMART Rider during the ESP term.

Thus, OCC's request for an assurance that CSP will not recover the remaining costs through post-ESP rate cases is inappropriate, unfair and conflicts with the Commission's decision in the *ESP Cases*. For the same reasons, CSP strongly disagrees with IEU-OH's position that the Commission should not sanction the program enhancements presented in the application. Consistent with the Orders in the *ESP Cases*, the Commission should find that all prudently incurred costs relating to the enhanced gridSMART Phase I initiative, less federal funding and vendor in-kind contributions, should continue to be recoverable from ratepayers. This was the basis for CSP undertaking the gridSMART initiative and any departure from the approach approved in the *ESP Cases* could jeopardize completion of the initiative.

III. OPAE'S OTHER COMMENTS

OPAE alone advances two additional arguments in its comments: (at 2-3) that the Commission should override CSP's proposal to catch up on the original deployment schedule in 2010 and presume that delays will prevent CSP from doing so, and (at 4-5) that the Commission should depart from the rate design approved in the *ESP Cases* and implement a ¢/kWh rate structure.

As for OPAE's presumption of further delay, CSP explained in its application (¶¶ 7, 9) that the temporary deployment delay experienced in 2009 was tied to the USDOE grant process and it was prudent for CSP to temporarily suspend investment. This one-time delay was unique and non-recurring. OPAE has no basis to presume additional delays. Rather, as explained in the application, CSP fully expects to catch up in 2010 and

remain on track with the Phase I deployment and implementation. Thus, the Commission should not modify CSP's projected 2010 expenditures based on such supposition.

Regarding OPAE's rate design proposal, the underlying premise that a ¢/kWh rate structure provides more transparency to customers is speculative, at best. A five decimal point fraction of a cent rate does not provide greater transparency. Not unlike the percentage of distribution rate design, a customer with a ¢/kWh rider rate would still have to take the amount and calculate it by usage in order to even get a dollar amount per month associated with the rider. CSP submits that the percentage increase rate design was used and approved in the *ESP Cases* and is the appropriate, cost-based recovery mechanism. There is no reason to revisit it here.

IV. IEU-OH'S OTHER COMMENTS

On March 26, 2010, Industrial Energy Users-Ohio (IEU) filed motions to intervene and comments, arguing that: 1) the Commission lacks jurisdiction to consider the application filed by CSP; 2) the Commission should require CSP to accept the Electric Security Plans adopted in Case No. 08-917-EL-SSO and should require CSP to withdraw its appeal from the Commission's Standard Service Offer order; and 3) the Commission should set the application for hearing.

Commission Jurisdiction

IEU has raised this issue in a number of proceedings both at the Commission and at the Supreme Court of Ohio. Most recently, in Case Nos. 09-872 and 873-EL-FAC, 09-1095-EL-RDR and 09-1906-EL-ATA, the Commission rejected IEU's jurisdictional argument in its March 24, 2010, Entry on Rehearing. In addition, the Commission has

argued against IEU's jurisdictional argument raised in IEU's appeal to the Supreme Court of Ohio in Case No. 09-2022. *See* Merit Brief of the Commission, pp. 5, 6). The Commission once again should reject IEU's jurisdictional argument.

Companies' "Acceptance" of the Commission's ESP and CSP's Withdrawal of ESP Appeal

IEU's argument concerning CSP's implementation of its Commission-approved ESP while not "accepting" the ESP and concerning CSP's appeal of the Commission's ESP order, also has been rejected by the Commission, both in its own proceeding and in IEU's appeal to the Supreme Court of Ohio in Case No. 09-2022. (*See* Merit Brief of the Commission, pp. 17-19) Besides rejecting the merits of IEU's arguments before the Court, the Commission also has found that IEU's argument "is not presently ripe for review, as AEP-Ohio has not withdrawn its ESP." (March 24, 2010 Entry on Rehearing in Case Nos. 09-872 and 873-EL-FAC, 09-1095-EL-RDR and 09-1906-EL-RDR, p. 6). Nothing has occurred since the issuance of that Entry that now makes that issue ripe. Even if the issue were ripe, IEU's argument lacks merit and should again be rejected.

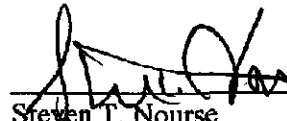
IEU-OH Hearing Request

IEU's basis for requesting hearings in this proceeding is that the application *appears* to be unlawful and unreasonable. As noted above, the legal issues raised by IEU have been resolved against IEU on more than one occasion. As far as the reasonableness of the Companies' proposals, IEU now has submitted comments applicable to the gridSMART Rider. Through this response CSP will be heard regarding those issues.

CONCLUSION

For the foregoing reasons, the Commission should grant the application filed in this case.

Respectfully submitted,



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EXHIBIT A

gridSmart 2009 Labor Hours - Full Time Core Employees

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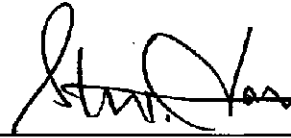
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Cost Category: Internal Labor

Ledger	Employee	Project Category	Budget Category	Total Labor Hours	2009 (06) Jun	2009 (07) Jul	2009 (08) Aug	2009 (09) Sep	2009 (10) Oct	2009 (11) Nov	2009 (12) Dec
ACTUALS	Employee A	gridSMART	O&M	1,016.0	136.0	112.0	160.0	136.0	160.0	128.0	184.0
ACTUALS	Employee B	gridSMART	O&M	1,177.5	194.5	187.0	156.0	128.0	160.0	160.0	192.0
ACTUALS	Employee C	gridSMART	O&M	1,036.0	152.0	216.0	110.0	150.0	130.0	102.0	176.0
ACTUALS	TOTAL HOURS			3,229.5	482.5	515.0	426.0	414.0	450.0	390.0	562.0
ACTUALS	TOTAL DOLLARS			\$168,728	\$22,073	\$26,261	\$22,020	\$21,836	\$24,364	\$21,198	\$28,984

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Columbus Southern Power Company's Reply Comments has been served upon the below-named counsel via First Class mail, postage prepaid, this 10th day of May, 2010.



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