

FILE

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

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**In the Matter of the Application of)
Columbus Southern Power Company and)
Ohio Power Company to Update Their)
Enhanced Service Reliability Riders.)**

Case No. 10-163-EL-RDR

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

Columbus Southern Power Company (CSP) and Ohio Power Company (OP), collectively referred as "the Companies" or "AEP Ohio," filed an Electric Security Plan (ESP) in Case Nos. 08-917-EL-SSO and 08-918-EL-SSO wherein the Commission found that the Companies' enhanced vegetation initiative, with Staff's additional recommendations, to be a reasonable program that would advance state policy, while deferring inclusion of the remaining programs for potential future adoption. (Opinion and Order, March 18, 2009, p. 34). Accordingly, the Commission approved the ESR Rider, subject to annual reconciliation based on the Companies' prudently-incurred costs. On February 11, 2010, the Companies filed this application as the first annual reconciliation of the ESR 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, AEP Ohio hereby submits its reply comments. AEP Ohio's reply comments attempt to focus on areas where the Companies disagree with the

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comments filed by Staff and intervenors, though silence on any proposal that is inconsistent with the application should not be construed as acceptance by the Companies.

I. RESPONSE TO STAFF COMMENTS

Progress of Enhanced Program

On page 5 of its comments, Staff notes that the Companies achieved end-to-end clearing on 238 circuits and did not meet the estimate of 250 circuits to be cleared end-to-end in 2009 – falling short by 4.8% of the goal. Staff indicated that it expects the Companies to make up the 2009 shortfall (of 12 circuits) in 2010 in addition to the completing end-to-end clearance on the additional 250 circuits estimated for 2010. As explained further below, AEP Ohio believes that the 250 circuits were an estimated number of circuits and that AEP Ohio fulfilled its commitment. AEP Ohio will maintain a target of 250 circuits and undertake the additional 12 circuits in 2010 provided the additional funding to support that activity is granted.

The 2009 expense only reflected the actual cost incurred for the 238 circuits completed; in order to meet the target in 2010 and add an additional 12 circuits, there would be an additional cost of completing those 12 circuits, whether it is done in 2010 or at a later year. It should be noted that there are factors beyond the Companies' control that could affect whether all of the 262 circuits can be cleared in 2010. Such factors include the number of inclement weather days; mutual assistance demands on our resources to respond to weather related events outside of AEP Ohio's service territory; availability of mechanical equipment needed to clear rights-of-way; and large variability in length among circuits, ranging anywhere from 0.1 miles to 165 miles in length. In

order to reach a target of 262 circuits in 2010 AEP Ohio will need to add approximately 240 miles to the current work plan. The estimated cost to add this mileage to the 2010 work plan is \$1.64 million.

Staff-Proposed Adjustments

On page 7 of its comments, Staff proposes to make two adjustments: (1) exclusion of \$2,134,934 in “undocumented charges” associated with the cost of services provided by contractors in 2009; and (2) exclusion of \$16,445 in internal labor costs for work performed “prior to the onset of the ESR Rider.”

The Companies provided support for invoices paid in 2009 of \$3,383,908, in response to Staff Data Request 4-2. The difference between the original accrual of \$4,135,815, and the documented charges is \$751,907.59, which the Companies agree to adjust from the filing in this case. The Company accrued \$4,135,815 at the end of 2009. The purpose of these accruals is to assure that services rendered in December 2009 are 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. These entries routinely get reversed in the following month and the invoices are entered as received. The total amount of the adjustments should be \$751,907.59 and \$16,445.

Other Comments

During Staff’s audit the Company identified an understatement of Rider Revenue that was reported in the initial filing. \$27,514 of Rider revenue was incorrectly identified in the system for Columbus Southern Power Company, and \$8,301 for Ohio Power

Company. Therefore, these amounts were not included in the Rider Revenue amounts shown in the filings. The Company will reflect this correction as an addition to the rider revenue collected in a compliance filing to this case.

II. RESPONSE TO OCC'S COMMENTS

AEP Ohio has incorporated or is working to incorporate each of Staff's Recommendations in a timely manner

The OCC maintains that AEP Ohio fails to explain which of the Staff's recommendations from the ESP Cases have been implemented. As noted in the application, the Commission approved the enhanced vegetation program with Staff's recommendations. Indeed, AEP Ohio has either incorporated each of the recommendations or is in the process of doing so in a timely manner.

Staff witness Roberts offered the following five recommendations in his ESP testimony:

- "End-to-end" circuit rights-of-way inspections and maintenance
- Mid-point circuit inspections to review vegetation clearance from conductors, equipment and facilities
- Greater clearance of all overhang above three-phase primary lines and single-phase lines
- Removal of danger trees located outside of the companies' rights-of-ways where property owner's permission can be secured
- Using technology to collect tree inventory data to optimize planning and scheduling.

The Companies have implemented the first, third and fourth items. Regarding the mid-point circuit inspections, AEP Ohio has not reached the mid-point of its transition plan so that recommendation has not been triggered. Regarding the last item, AEP Ohio is in the process of developing the technology. The Companies plan to collect the field data using electronic storage devices utilizing software developed and owned by a third party. The

third-party vendor has been selected. AEP Ohio is developing a program internally to manage and store the vegetation management program data. Program development is expected to be completed late third quarter 2010 with training of field personnel and implementation to take place fourth quarter 2010.

Baseline Vegetation Spending

OCC also questions the baseline vegetation spending level of \$24.2 million used by AEP Ohio. As OCC notes, the Commission directed AEP Ohio to work with Staff to strike the correct balance within the cost level established. (*ESP Cases*, Entry on Rehearing at 18.) OCC complains (at 4) that it was “excluded” from the discussion between Staff and AEP Ohio. The Commission only directed the Companies to work with Staff and that is what the Companies have done.

In the *ESP Cases*, the Companies proposed to use the prior 4 years vegetation spending as the baseline (2004-2007), producing a baseline spending level of approximately \$22 million. The baseline level agreed to by Staff and AEP Ohio of \$24.2 million was higher than that historical level and was agreed to by the Companies as a compromise in order to move forward with the enhanced vegetation plan. The agreed-to baseline level should be affirmed because it is supported by the historical spending of the Companies (actually higher than those levels, meaning that the incremental spending recovered through the ESR Rider is less than if actual historical spending were used) and the proposed baseline was agreed to by the Staff (it was the Commission’s directive to resolve through discussions with Staff).

Burden of Proof/ Hearing Request

OCC seeks to require an evidentiary hearing in this case. OCC has not brought forth any specific concerns based on its review of the application and the discovery conducted in this case; rather, it launches generalized concerns that the Companies have not met their burden of proof or fully explained issues to OCC's satisfaction. For example, OCC claims that the Companies have not met their burden of proof in supporting their proposed carrying charge; the Staff has thoroughly reviewed the carrying charge issues and Staff's comments recommend (with minor exception) using the carrying charges already approved in the Companies' *ESP Cases*.

OCC also suggests that the Commission revisit the merits of the enhanced vegetation plan in this case. AEP Ohio submits that such an approach is not appropriate or required here. In approving the enhanced vegetation plan, as adjusted with Staff's recommendations, in the *ESP Cases*, the Commission already reviewed the plan and approved the benefits of the proposal as part of that decision, in a manner that is consistent with R.C. 4928.143(B)(2)(h). See *ESP Cases*, Opinion and Order at 33-34 ("we believe that the Companies' proposal for a new vegetation initiative more closely aligns the customers' expectations with the Companies' expectations as it relates to tree-caused outages, importance of reliability, and the increasing frustration surrounding momentary outages with the emergence of new technology.")

Thus, the annual update filings are more akin to audit proceedings to ensure that funds were actually spent in implementing the approved plan and expenditures were made in a prudent manner. OCC's generalized concerns do not justify conducting an evidentiary hearing in this case. Indeed, the Commission also made this explicitly clear

in its July 23, 2009 Entry on Rehearing in the *ESP Cases* when it stated (at 17): (The Commission created the ESRP Rider as a mechanism to recover actual costs incurred so that the expenditures could be tracked, reviewed to determine that they were prudent and incremental to costs included in base rates, and reconciled annually.” OCC’s invitation to reconsider the merits of the ESR Rider should be rejected.

III. RESPONSE TO IEU-OHIO’S COMMENTS

On March 26, 2010, Industrial Energy Users-Ohio (IEU) filed motions to intervene and comments, arguing: 1) the Commission lacks jurisdiction to consider the application filed by the Companies; 2) the Commission should require the Companies to accept the Electric Security Plans adopted in Case Nos. 08-917 and 918-EL-SSO and should require CSP to withdraw its appeal from the Commission’s Standard Service Offer order; and 3) the Commission should set each of these applications 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 the Companies' implementation of their 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.

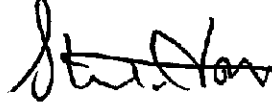
IEU Hearing Request

IEU's basis for requesting hearings in each of these proceedings is that the applications *appear* to be unlawful and unreasonable. As noted above, the legal issues raised by IEU have been resolved against IEU on more than one occasion. A hearing is not needed to address IEU's legal issues.

CONCLUSION

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

Respectfully submitted,

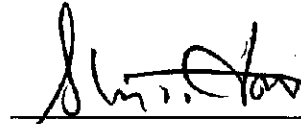


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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing
Columbus Southern Power Company's and Ohio 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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