

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Commission's)	
Review of Fuel Adjustment Clause)	Case No. 10-479-EL-UNC
Guidelines)	

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

By Entry dated June 23, 2010, the Commission invited comments regarding Staff's proposed guidelines to provide uniform standards and specifications for the FAC audits. The Commission set July 14, 2010 and July 28, 2010 as the filing dates for initial and reply comments, respectively. In accordance with this schedule, Columbus Southern Power Company and Ohio Power Company (collectively AEP Ohio) filed timely initial comments and offer the following reply comments

GENERAL COMMENTS IN RESPONSE TO OCC

AEP Ohio is generally concerned with initial comments offered by the Office of the Consumers' Counsel ("OCC") that seek to expand the level of detail of the audit without a corresponding value of doing so. AEP believes that the Staff's proposed guidelines, as amended with changes reflected in AEP's initial comments, are appropriate. The professional judgment of the auditor will guide the evaluation of prudence. It is not necessary to spell out each and every item that must be audited. As a related matter, the OCC proposes unnecessarily expanding the scope of the FAC audit, while also being overly prescriptive in its requirements for auditors. This not only reduces the degree to which an auditor can use his or her

professional judgment, but also tends to result in encouraging auditors to review items that are either beyond the review period or beyond the scope of the FAC mechanism

In several places in the FAC guidelines, the OCC has endeavored to shift away from the Commission Staff's intended tone of having guidelines that focus on prudent operations with continuous improvement to one dominated by criticism. AEP Ohio believes this to be both unnecessary and non-productive. Audits that are conducted with a goal of improvement will by definition reveal areas of concern and provide specific recommendations for Commission consideration. The Commission has discretion to address any issues detected in an audit and, therefore, the addition of critical language is not in keeping with the original intent, nor is it necessary to assure a comprehensive audit.

OCC also wants management decisions evaluated on a “...in light of the conditions circumstances, and available information, that was known or should have been known, at the time decisions were made.” The suggestion that the company should be held responsible for something that “should have been known” is highly subjective. That standard would insert too much opinion and potentially personal bias into the evaluation. The standard for such a review is to assess the prudence of a transaction in light of the operational and market conditions at the time. This OCC-suggested language is not appropriate for the final guidelines as it represents inappropriate hindsight management.

Throughout the guidelines, OCC also wants to advance that procurement decisions be evaluated on a new standard of “the most cost effective price.” The

Staff-proposed standard of “lowest reasonable cost” remains an appropriate standard for evaluation as it suggests consideration of other relevant criteria, including the reliability of supply in such determinations. OCC’s term suggests the lowest cost alone – which is not and should not be the sole criteria for evaluating a supplier proposal.

Also, consistent with AEP Ohio's previous comments, determining a Company's environmental compliance with the Clean Air Act Amendments is the jurisdiction of the USEPA, and should not need to be reviewed by an auditor through the process for the OH FAC.

In several areas, the proposed guideline changes suggested by the OCC should not be accepted or, at a minimum, be clarified if considered at all. The comments set forth below track the headings within OCC’s initial comments and are organized in the same order as the sections within their initial comments.

SPECIFIC COMMENTS IN RESPONSE TO OCC

I. Introduction

OCC suggests that a statement should be added to reflect that the utility shall bear the cost of the audit. While this reflects existing practice, it is duplicative to include this statement in the audit guidelines. However, to the extent that such comments are accepted, then the statement should also provide that these costs are to be recovered through the FAC.

II(A)(6)(c)(iii)

While AEP Ohio does not oppose the notion of an FAC auditor evaluating consequences if a supplier fails to deliver fuel or went bankrupt, OCC's proposed additions are overly prescriptive. This level of specificity is not necessary as the original guidelines prepared by the Staff, as amended in AEP Ohio's comments, are sufficient to provide the auditor the with the discretion to follow-up as is appropriate for such circumstances.

II(A)(6)(c)(iv)-(x)

The addition of (vi) is unnecessary as the terms and conditions of each agreement need not be repeatedly reviewed. First, the period should be limited to only agreements in effect during the review period. Second, once an agreement has been reviewed during an audit, it need not be re-reviewed unless provisions of the agreement have changed. Of course, the auditor has full discretion to review any agreements in effect during the review period, but the auditor should be able to use their professional discretion to sample the array of agreements as necessary to assure prudence – rather than be required to do so for every agreement for every review period.

The addition of affiliate comparisons for (vii) and (viii) are unnecessary as the provisions permitted under draft guidelines, as provided by the Commission Staff, are sufficient to raise these issues. When evaluating affiliate performance, it is important to not only consider price, but the reliability of supply as well as other

pertinent factors. Concerning item (ix), the auditor should use their professional judgment to consider major forced outages only as circumstances warrant.

II(A)(6)(f)

AEP Ohio supports the ability to use hedging techniques and tools in order to mitigate price volatility, however, the Company is unaware of any rules or authorization that exists whereby the Company is allowed to recover prudently incurred costs for hedging, including charges for outside services, brokerage fees and losses incurred and other costs. In any event, hedging should be decided on a case-by-case basis and not be presumed to be required in the guidelines. Hedging reduces volatility, but may introduce both cost savings and cost increases as volatility is both up and down.

II(A)(8) Audit procedures for environmental compliance

While AEP Ohio agrees that the scope of the audit should include the allowance programs currently in effect under the Clean Air Interstate Rule (CAIR), extending the audit to any replacement for the CAIR program may be premature. EPA has proposed several options to implement additional reductions under its recent Transport Rule, not all of which involve market-based allowance programs. The proposed procedures should extend to any replacement rule for CAIR only if appropriate based on the final rule.

With respect to the individual additions to subparagraphs (e) through (k) proposed by OCC, AEP Ohio offers the following reply:

(e) A review of allowance transactions engaged in by the Company during the audit period is a reasonable way to confirm that the Company is acting prudently in its use, purchases or sales of allowances, and to confirm that the proceeds of allowance transfers involving joint owners of a particular generating unit are allocated in accordance with the agreement between the owners. With this clarification, AEP Ohio agrees that some modest expansion of subparagraph (e) is warranted.

(f) There is no requirement for a Company to maintain a "contingency" of banked allowances, and there are no objective standards offered by which to judge the adequacy or prudence of the plans for such a contingency, if held, set forth in OCC's expanded guidelines. Moreover, given the treatment of CAIR allowances under the recently proposed Transport Rule, the use and amount of any contingency reserve of CAIR allowances will be affected by regulatory actions over which a utility has no control. AEP Ohio believes that new subparagraph (f) is unnecessary and unwarranted.

(g) Similar to (f), the need to conserve allowances is not well defined given the level of uncertainty regarding future environmental regulations. Also, the term "maximize" is inappropriate for inclusion since "maximizing" conservation may not be the most prudent action at any given time. Both subparagraphs (f) and (g) should be deleted.

(h) The allocation of emission allowances among affiliate Companies within a multi-state utility system is not within the jurisdiction of the Ohio Commission. Under the existing market-based allowance programs, allowances are allocated to specific generating units, and the owners or operators of those units can be required to account for their use, transfer, or banking of those allowances if they are otherwise subject to the Commission's jurisdiction. The language in subparagraph (e) is sufficient to capture all of this activity, so adding subparagraph (h) is unnecessary.

(i) It is not clear what is meant by "modifications to the allowance inventory" And OCC offers no explanation of this phrase. If allowance transactions are reviewed as suggested in subparagraph (e), then any further provision for review is unnecessary.

Accordingly, all of the additional language proposed by OCC in this section should be rejected, except for a clarification in subparagraph (e) that the auditor should review both Title IV and CAIR allowance transactions.

II(A)(9) Audit procedures for purchased power and sales for resale policy evaluation.

In II. (B)(5)(e) and II (B)(9) OCC has proposed the following:

N. Proposed Modifications: Additional language to include off-system sales within the scope of the audit (Section II(B)(5)(e), II(B)(9)(a)):

II.(B)(5) (e) Recording purchases and interchanges and sales for resale

II (B) (9) Audit procedures for purchased power and sales for resale

(a) Obtain a description of the procedures followed by the system dispatcher in purchasing power and sales for resale and determine

AEP Ohio disagrees with this proposed language that includes off system sales as part of this audit process. OCC's transparent attempt to undermine the Commission's decision in the *AEP Ohio ESP Cases* (Case Nos. 08-917 and 08-918-EL-SSO) should not be entertained. The Commission's March 18, 2009 Opinion and Order was clear regarding off system sales not being included in the FAC:

Commission does not believe that the testimony presented (by the intervenors) offered adequate justification for modifying the Companies' proposed ESP to offset OSS margins from the FAC costs Section 4928. 143(B)(2)(a), Revised Code, specifically provides for the automatic recovery, without limitation, of prudently incurred costs for fuel, purchased power, capacity cost, and power acquired from an affiliate As recognized by the Companies, the pertinent statutory provisions do not require that there be an offset to the allowable fuel costs for any OSS margins.

AEP Ohio ESP Cases, Opinion and Order at 17. The Commission's July 23, 2009 Entry on Rehearing again clearly reiterated the Commission's conclusions regarding including off system sales in the FAC:

The Commission noted that the Companies' earnings from off-system sales would be excluded from fuel costs and, consistent with that decision, also excluded off-system sales margins from any SEET.

AEP Ohio ESP Cases, Entry on Rehearing at 45. Those Commission determinations are final and govern the term of AEP Ohio's approved ESP and the Commission should not entertain OCC's attempt to collaterally attack that final decision in this (or any other) proceeding

II(A)(10)(a) Audit report

AEP Ohio disagrees with OCC's proposed language to enforce the terms and conditions of a utility's SSO in the context of an FAC. This is another example of OCC attempting to unduly expand the FAC with issues that are not properly within the scope of an FAC audit. The FAC audit should be directly and narrowly focused on the fuel procurement and power purchase issues relating to the audit period – not unduly burdened by issues from other proceedings. Any SSO compliance issues are more appropriately addressed in the context of the SSO proceeding.

CONCLUSION

AEP Ohio thanks the Commission for the opportunity to file reply comments on the proposed FAC guidelines.

Respectfully Submitted,

/s/ Steven T. Nourse

Steven T. Nourse

Matthew J. Satterwhite

American Electric Power Corporation

1 Riverside Plaza, 29th Floor

Columbus, Ohio 43215-2373

Telephone: (614) 716-1608

Facsimile: (614) 716-2950

stnourse@aep.com

mjsatterwhite@aep.com

Counsel for Columbus Southern Power
Company and Ohio Power Company

CERTIFICATE OF SERVICE

I hereby certify that a copy Columbus Southern Power Company's and Ohio Power Company's Reply Comments was served by electronically upon the individuals listed below this 28th day of July, 2010.

/s/ Steven T. Nourse
Steven T. Nourse

Samuel C. Randazzo (Counsel of Record)
Lisa G. McAlister
Joseph M. Clark
McNees Wallace & Nurick, LLC
Fifth Third Center
21 East State Street, 17th Floor
Columbus, OH 43215-4228
Telephone: (614)469-8000
Telecopier: (614)469-4653
sam@mwncmh.com
lmcalister@mwncmh.com
jclark@mwncmh.com

Donald I. Marshall
Eagle Energy, LLC
4465 Bridgetown Road, Ste. 1
Cincinnati, Ohio 45211-4439
Phone: (513)251-7283
Telecopier: (513)251-7283
eagleenergy@fuse.net

Randall V. Griffin
Judi L. Sobecki
The Dayton Power and Light Company
1065 Woodman Drive
Dayton, Ohio 45432
Telephone: (937)259-7112
Telecopier: (937)259-7813
Randall.Griffin@DPLINC.com
Judi.Sobecki@DPLINC.com

Janine L. Migden-Ostrander
Consumers' Counsel
Maureen R. Grady
Ann Holtz
Jody Kyler
Kyle Verrett
Assistant Consumers' Counsel
Office of Ohio Consumers' Counsel
10 West Broad Street, Ste. 1800
Columbus, Ohio 43215-3485
Telephone: (614)466-8574
Telecopier: (614)466-9475
grady@occ.state.oh.us
hotz@occ.state.oh.us
kyler@occ.state.oh.us
verrett@occ.state.oh.us

Amy B Spiller
Associate General Counsel
Elizabeth H Watts
Assistant General Counsel
Rocco O.D'Ascenzo
Senior Counsel
Duke Energy Ohio, Inc.
139 Fourth Street, 25 Atrium II
PO Box 960
Cincinnati, Ohio 45202-0960
Telephone:(614)222-1331
Telecopier:(513)419-1846
amy.spiller@duke-energy.com
rocco.dascenzo@duke-energy.com
elizabeth.watts@duke-energy.com

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

7/28/2010 2:13:22 PM

in

Case No(s). 10-0479-EL-UNC

Summary: Reply Columbus Southern Power Company Reply Comments for Case 10-479-EL-UNC electronically filed by Mr. Steven T Nourse on behalf of American Electric Power Service Corporation