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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) Case No. 10-163-EL-RDR
to Update Their Enhanced Service)
Reliability Riders)

PUCO

**COMMENTS ON THE JULY 21, 2010 LETTER OF COLUMBUS SOUTHERN
POWER COMPANY AND OHIO POWER COMPANY BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL**

I. INTRODUCTION

On February 11, 2010, the Columbus Southern Power Company ("CSP") and the Ohio Power Company ("OP")(collectively "AEP" or "Companies") filed an Application proposing new Enhanced Service Reliability ("ESR").¹ AEP's purpose for the riders is to collect costs from customers for AEP's incremental vegetation management plan.² The Office of the Ohio Consumers' Counsel ("OCC") moved to intervene on February 23, 2010, to represent AEP's approximately 1.2 million residential consumers.³ OCC filed Comments on April 30, 2010, and filed Reply Comments on May 10, 2010.

On July 21, 2010, AEP filed a letter containing an "update" to its Application. On July 30, 2010, the Staff of the Public Utilities Commission of Ohio ("PUCO" or

¹ *In re AEP's Self-Complaint Regarding Service Reliability*, Case No. 06-222-EL-SLF, Complaint at 1 (January 31, 2006).

² *In re the Application of Columbus Southern Power Company For Approval of its Electric Security Plan Including Related Accounting Authority; an Amendment to its Corporate Separation Plan; and the Sale or Transfer Certain Generating Assets*, Case No. 08- 917-EL-SSO et al., Opinion and Order ("ESP case")(March 18, 2009) at 34.

³ OCC's intervention was granted in an Entry issued on April 8, 2010 at 4.

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“Commission”) filed a letter indicating that it agreed with the “resolutions” proposed by AEP in the Companies’ letter of July 21, 2010.

OCC submits Comments on AEP’s “updated position.” But the purpose of the Companies’ letter is unclear. Ohio Adm. Code 4901-1-06 provides, with good cause shown, for the PUCO to authorize the amendment of an Application. AEP has not sought to amend its Application. Therefore, the Commission should not act on the application in its present form. OCC reserves the right to submit comments on any additional filing that AEP might make regarding the nature of the update.

II. COMMENTS REGARDING AEP’S UPDATED POSITION

A. The Commission Should Deny AEP’s Request For An Additional \$1.64 Million In Expenditures For The Incremental Vegetation Management Plan Based On The Companies’ Need To “Catch Up” On Its Three-Year Plan Filed In The ESP Case.

AEP requests to collect an additional \$1.64 million from customers to trim vegetation from an additional 12 circuits. The stated reason for the expenditure is to “catch up” on the originally planned schedule as part of the incremental vegetation management plan.⁴ The Commission should deny this request.

In AEP’s ESP case, the Commission explicitly approved incremental vegetation management spending in the amount set forth in the testimony of AEP’s witness: “The ESRP rider initially will include only the incremental costs associated with the Companies’ proposed enhanced vegetation initiative (AEP. Ex. 11 at 31, Chart 7)

⁴ Update at 1.

as set forth herein.”⁵ The Commission should deny any additional collections from customers beyond that approved by the Commission in the ESP case.

In AEP Witness Boyd’s Chart 7, cited by the Commission in its Opinion and Order, AEP proposed incremental vegetation management expenditures of \$31.5 million in year one of the program, \$34.8 million in year two and \$38.1 million in year three, totaling \$104.4 million.⁶ The \$1.64 million in additional spending, beyond the \$104.4 million approved by the Commission is unjust and unreasonable and not permitted by the Commission’s Order. R.C. 4905.22. The Commission should deny this additional vegetation management spending.

B. AEP’s Proposed Exclusions And Additions.

AEP proposed in its update an exclusion of \$751,907.59 of 2009 charges due to the absence of invoice support.⁷ Accordingly, the PUCO should exclude this amount from what customers will be asked to pay. Additionally, these undocumented charges should be permanently excluded because the rider is structured to allow cost recovery only in the year in which the costs occur.⁸

AEP also proposed an exclusion of \$16,445 for work done in December 2008 and the addition of “revenue understatement discovered by the Companies during the PUCO

⁵ In the Matter of the Application of Columbus Southern Power Company For Approval of its Electric Security Plan Including Related Accounting Authority; an Amendment to its Corporate Separation Plan; and the Sale or Transfer Certain Generating Assets, Case No. 08- 917-EL-SSO et al., Opinion and Order (March 18, 2009) at 34.

⁶ ESP Case Opinion and Order at 34.

⁷ Update at 1. The PUCO Staff had originally proposed an exclusion of \$2,134,934 for undocumented charges in its Comments at 7.

⁸ OCC Reply Comments at 3.

Staff audit” which amounted to \$27,514 for CSP and \$8,301 for OP. OCC does not object to the proposed exclusions and additions.

C. Carrying Charges

AEP did not spell out the method for calculating annual carrying charges in its original Application. It did propose to use an annual carrying charge of 13.62% for CSP and 13.31% for OP. Based on discovery responses provided by AEP to OCC, it appears that these annual carrying charge rates were derived mainly from the method approved by the Commission in the ESP case for the environmental investments made during the period of 2001 to 2008.⁹ The Commission did not approve a specific carrying charge for the ESR rider.¹⁰ In the update, AEP proposed certain revisions to the annual carrying charges based on Staff’s comments filed on April 30, 2010.¹¹ In the update, AEP proposed increases in carrying charges from 13.62% to 14.96% for CSP and 13.31% to 14.38% for OP.

The Commission did not specify a particular method for calculating the carrying charge for vegetation management investment in the ESP case. Consequently, AEP has the burden of proof in this case that the proposed carrying charges are just and reasonable and AEP has not met the burden to show that the proposed annual carrying charge rates are just and reasonable.¹² The Commission should deny AEP’s proposed carrying charges. OCC has previously expressed concerns regarding the methods proposed by

⁹ The ESP case Opinion and Order (March 18, 2009) at 24-29 contains a more detailed discussion of the methodology of calculating the annual carrying charge.

¹⁰ Id. at 34.

¹¹ PUCO Staff Comments at 7-9.

¹² OCC Reply Comments at 4-6.

AEP and the Staff for calculating the various components of the carrying charges and the Commission should require AEP to calculate carrying charges in consideration of the concerns raised by OCC.¹³

Specifically, AEP states in its update that it is using the same weighted average cost of capital, debt/equity ratio, depreciation factor and the Federal Income Tax ("FIT") factor, property taxes and the Administrative and General ("A&G") factor approved in the ESP. AEP also states that the property tax component should be adjusted to reflect the elimination of most of the personal property taxes.¹⁴ AEP's statement in its update is misleading because the proposed annual carrying charge rates in the update reflect both the elimination of most of the personal property taxes *and* the change in the valuation of the vegetation investment for property tax purposes.

AEP has not demonstrated that the use of 2006-2007 financial data and operating information, in calculating the 2009 carrying charges for environmental investments made in 2009, will result in a carrying charge rate that is just and reasonable.¹⁵ Actually, in almost all rate cases and infrastructure replacement rider cases, the Commission and Commission Staff have consistently required the property tax expenses be calculated based on the most updated property tax rate, in this instance the 2009 tax rate - not the property tax rate calculated by AEP from property tax expenses three years ago. For example, in a recent Columbia Gas Rider IRP and Rider RSM case, PUCO Staff filed comments stating that "The Company utilized an estimated tax rate to annualized property tax expense. The Staff reduced property expenses by \$23,670 by recalculating

¹³ OCC Comments at 6-7 and OCC Reply Comments at 4-7.

¹⁴ Update at 2.

¹⁵ R.C. 4905.22

property tax expense utilizing the latest know tax rate.”¹⁶ AEP also failed to explain why it used the average of the 2006 and 2007 Gross Plant in calculating the property tax rate used in the update. By doing so, the average Gross Plant of CSP and OPC were significantly under-estimated and the property tax rates were significantly over-estimated.

If the Commission accepts the proposal of AEP, and the concurrence of the PUCO Staff, that the capital investments in vegetation management should be treated as distribution-related assets, then the Companies should be ordered to record all depreciation expenses recovered by the Companies through the annual carrying charges under the ESR rider as accumulated depreciation. The amounts of accumulated depreciation should be deducted from the rate base of distribution-related assets in the next distribution case or ESP case. Otherwise, the depreciation expenses associated with the capital investments in vegetation management incurred during the ESP period are recovered twice from AEP’s customers.

III. AN EVIDENTIARY HEARING IS NECESSARY TO DETERMINE AEP’S APPROPRIATE INCREMENTAL VEGETATION MANAGEMENT EXPENDITURES RECOVERABLE UNDER THE ENHANCED SERVICE RELIABILITY RIDER.

The Commission has the statutory responsibility to ensure that “[a]ll charges made or demanded for any service rendered * * * shall be just [and] reasonable....” R.C. 4905.22. In terms of electric service, the Commission is required by Ohio law to “[e]nsure the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service.” R.C. 4928.02(A). AEP

¹⁶ In the Matter of the Annual Application of Columbia Gas of Ohio, Inc. for an Adjustment to Rider IRP and Rider DSM Rates, Case No. 09-0006-GA-UNC (May 15, 2009) at 16.

has not established, in its initial Application or in its update, that its proposed ESR rider and accompanying carrying charges are reasonable.

R.C. 4903.09 requires that the Commission provide “findings of fact and written opinions setting for the reasons . . .” for its decisions. There is inadequate information in the record for the Commission to make a determination of the appropriate amount of AEP’s ESR rider moving forward. There is also inadequate information provided regarding AEP’s proposed carrying charges.

There are several significant issues regarding AEP’s Application and subsequent update that have not been adequately addressed through the comment and reply comment process. The Commission should not make the determinations in this case based solely on the insufficient information provided by the Companies in this proceeding. AEP has provided inadequate support for its requested \$1.64 million in additional funding to “catch up” on its incremental vegetation management program. AEP has also failed to support its method of calculating appropriate carrying charges. AEP failed its burden of proof that its proposed carrying charges and additional expenditures are “prudently incurred”, as required by the Commission’s Order, its requests should be denied.¹⁷

But if the PUCO is not prepared to deny AEP’s requests based on lack of proof, the PUCO should schedule a hearing so that parties can obtain evidence through testimony and the cross-examination of witnesses. A hearing is needed for the Commission to make the necessary determinations regarding these issues. The Commission has authority, pursuant to R.C. 4909.18, to investigate whether public

¹⁷ ESP case Order at 34.

utilities are providing service in a reasonable and just manner and to hold a hearing regarding any public utility's service:

4909.18 Application to establish or change rate.

Any public utility desiring to establish any rate, joint rate, toll, classification, charge, or rental, or to modify, amend, change, increase, or reduce any existing rate, * * * shall file a written application with the public utilities commission. * * * Such application shall contain a schedule of the existing rate, joint rate, toll, classification, charge, or rental, or regulation or practice affecting the same, a schedule of the modification amendment, change, increase, or reduction sought to be established, and a statement of the facts and grounds upon which such application is based. * * * The application shall provide such additional information as the commission may require in its discretion. * * * If it appears to the commission that the proposals in the application may be unjust or unreasonable, the commission shall set the matter for hearing * * * . At such hearing, the burden of proof to show that the proposals in the application are just and reasonable shall be upon the public utility. * * *

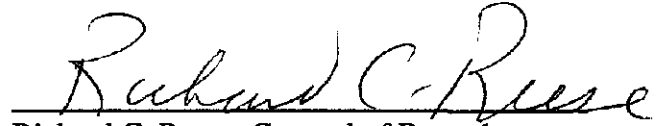
The Commission should hold a hearing in this case to determine whether AEP's ESR rider is unjust or unreasonable.

IV. CONCLUSION

This case may adversely affect residential customers through the increase in electric rates that AEP is proposing in the ESR rider proposed by AEP. In both the Application and its update AEP failed to prove that its proposals should be approved for increasing the rates customers pay. In the interests of setting reasonable and lawful rates for 1.2 million residential customers of AEP, the Commission should hold a hearing in this case.

Respectfully submitted,

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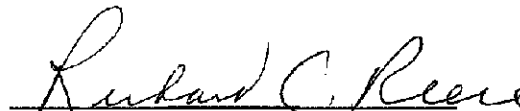
A handwritten signature in cursive script, reading "Richard C. Reese", written in black ink.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the Office of the Ohio Consumers' Counsel's
Comments was served upon the persons listed below via first class U.S. Mail, postage
prepaid, this 9th day of August 2010.



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