

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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

ENTRY ON REHEARING

The Commission finds:

- (1) On March 18, 2009, the Commission issued its opinion and order in Columbus Southern Power Company's (CSP) and Ohio Power Company's (jointly, AEP-Ohio or the Companies) electric security plan (ESP) cases (ESP Order).¹ By entries on rehearing issued July 23, 2009 (First ESP EOR) and November 4, 2009 (Second ESP EOR), the Commission affirmed and clarified certain issues raised in AEP-Ohio's ESP Order. As ultimately modified and adopted by the Commission, CSP's ESP directed that CSP create the gridSMART rider.²
- (2) On February 11, 2010, as updated July 21, 2010, CSP filed an application to update its gridSMART rider (gridSMART case). The Office of the Ohio Consumers' Counsel (OCC), Industrial Energy Users-Ohio, and Ohio Partners for Affordable Energy each filed for, and were granted, intervention in the gridSMART case.
- (3) After considering the application, the comments and reply comments, the Commission issued its finding and order on August 11, 2010, adjusting CSP's gridSMART rider rate, affirming that CSP must comply with the disconnection notice requirements of Rule 4901:1-18-05, Ohio Administrative Code (O.A.C.), and ordering the gridSMART rider rate be restated from a percentage of base distribution revenues to a fixed monthly per bill charge (gridSMART order).
- (4) Section 4903.10, Revised Code, states that any party who has entered an appearance in a Commission proceeding may apply

¹ In re AEP-Ohio ESP cases, Case Nos. 08-917-EL-SSO and 08-918-EL-SSO, Opinion and Order (March 18, 2009).

² In re AEP-Ohio ESP Order at 34-38; First ESP EOR at 18-24.

for rehearing with respect to any matters determined in the proceeding by filing an application within 30 days after the entry of the order upon the journal of the Commission.

- (5) On September 10, 2010, OCC filed an application for rehearing of the Commission's gridSMART order asserting that the order was unjust, unreasonable, and/or unlawful in three respects. On September 20, 2010, CSP filed a memorandum contra OCC's application for rehearing.
- (6) First, OCC argues that the gridSMART order is unlawful to the extent that the Commission approved an additional \$560,378 in "carrying charges" for gridSMART investment in violation of Sections 4905.22 and 4928.02(A), Revised Code, without a demonstration by CSP that the additional "carrying charges" were warranted or necessary. OCC notes that the Staff recommended the additional "carrying charges" and CSP agreed, but Staff did not demonstrate that the increased carrying charges were necessary or warranted for gridSMART implementation. The additional "carrying charges," OCC contends, will further burden customers during this difficult economic time. OCC notes that, while the order referred to the carrying cost rate approved in the ESP cases, the gridSMART order only references the carrying cost rate for AEP-Ohio's environmental investments during the ESP period. OCC reasons that because the Commission did not require CSP to prove that the additional "carrying charges" are necessary, nor evaluate the "carrying charges" requested, the gridSMART order violates Sections 4905.22 and 4928.02(A), Revised Code.
- (7) In its memorandum contra, CSP offers that the Commission did approve carrying charges for the company's gridSMART investment in the First ESP EOR when it approved recovery of half of the gridSMART Phase I incremental revenue requirement for 2009 through 2011 of \$32 million. CSP explains that the \$32 million revenue requirement was based on one-half of the gridSMART expenditures, including operations and maintenance and carrying costs as presented by CSP witnesses.³ Further, CSP notes that the Staff recommended that the Companies be consistent with the ESP Order and use the same weighted average cost of capital approved in the ESP

³ See Cos. Ex. 1 at Ex. DMR-4; Cos. Ex. 7 at Ex PJN-10.

cases. Staff also explicitly agreed with CSP's updated position in this case to correct, as Staff recommended, the carrying cost calculation. CSP concludes that OCC's challenge to the gridSMART order is merely an improper attempt to second guess the Commission's decision in the ESP cases, as well as the gridSMART case, which the Commission should deny.

- (8) The Commission's approval of the gridSMART rider rate in the ESP cases included revenue requirement and rate of return calculations as presented by CSP witnesses, as modified by the Commission based on certain recommendations made by Staff. Staff's calculation of the "carrying charge cost rate" was approved by the Commission in the gridSMART order and was derived from the ESP cases. The CSP carrying charge cost rate is comprised of 4 factors and based on the expected life of the investment asset: the rate of return factor (8.11 percent), a revenue requirement component that includes a depreciation factor (2.23 percent), federal income tax factor (1.64 percent), and a combined property taxes and administrative and general factor (2.95 percent). The expected life of gridSMART investment assets is 25 years. The additional \$560,378 did not result from a change in the rate of return factor but from the reallocation of property taxes within the combined property tax and administrative and general factor in order to comply with state of Ohio tax code requirements. Therefore, there were no additional "carrying charges" assessed on customers. Further, we note that in AEP-Ohio's Environmental Investment Rider Case,⁴ OCC agreed with the Staff's recommendation to revise the "carrying charges" to reflect that the certified pollution control facilities are exempt from personal property taxes and, therefore, should not be included in the rider rates.

Thus, we find OCC has not presented any new arguments for the Commission's consideration that were not previously considered and rejected. Nothing argued by OCC on rehearing convinces the Commission that the carrying charge cost rate approved in the gridSMART case violates Sections 4905.22, Revised Code, which states, in relevant part, that "All charges made or demanded for any service rendered, or to be rendered, shall be just, reasonable, and not more than the charges

⁴ *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company to Establish Environmental Carrying Cost Riders*, Case No. 10-155-EL-RDR.

allowed by law or by order of the public utilities commission..." Nor do we find that the gridSMART order violates Section 4928.02(A), Revised Code. The Commission recognizes that it is the policy of the state of Ohio pursuant to Section 4928.02(A), Revised Code, to "ensure the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service." OCC's request for rehearing on this issue is denied.

- (9) Second, OCC argues the Commission violated Sections 4905.22 and 4928.02(A), Revised Code, by allowing CSP to bill its tariffed charges for customer-requested disconnections and reconnections performed by remote means. OCC explains that CSP will not incur the cost of sending an employee to the premises if the company disconnects and reconnects service by remote means and, therefore, should not be permitted to charge the company's \$30 disconnection/reconnection fee where service is disconnected at the customer's request. OCC contends that the gridSMART order did not address disconnections at the customer's request, only instances where service is disconnected for nonpayment.
- (10) CSP responds that OCC's argument, that the Commission should have unilaterally modified the company's existing tariff for disconnections and reconnections in the gridSMART order, is misguided and without merit. Sections 4905.22 and 4928.02, Revised Code, CSP reasons, have no relevance or application in OCC's attack on the Commission's decision in the gridSMART case. CSP explains that some disconnections will require a field visit such as in the case where service is disconnected at the pole. Further, CSP asserts that the company will incur costs to perform disconnection and reconnection activities, even when remote disconnection/reconnection capabilities are utilized as the company's approved disconnection and reconnection charge is not based solely on a field visit. The company argues there is insufficient information in the record in this case to support revising the company's approved tariff charges for disconnections/reconnections.
- (11) In the gridSMART order, the Commission's focus was on consumer protection notices for disconnections for nonpayment as opposed to disconnections and/or reconnections at the customer's request. Accordingly, we grant

OCC's request for rehearing to further consider this issue. The Commission finds there is insufficient information in the record for the Commission to make a determination on eliminating, or otherwise adjusting, the disconnection/reconnection fee for customers requesting the disconnection or reconnection of their service where the disconnection or reconnection is done remotely. For this reason, we deny OCC's requests to eliminate the disconnection/reconnection fee entirely for customer-requested disconnections/reconnections. However, the Commission expects that the utility's tariffed rates are cost-based and, to that end, directs CSP to file a report, within 90 days of the issuance of this order, on the cost basis for the disconnection or reconnection of service where a smart meter is installed and, if appropriate, CSP should file proposed revised tariffs.

- (12) Lastly, OCC argues that the Commission's direction to CSP regarding the treatment of depreciation expenses it collects through the annual carrying charges associated with the gridSMART rider is vague. In its comments filed July 21, 2010, OCC proposed, as an alternative to treating the capital investments in gridSMART as distribution-related assets, that the Commission order CSP to record all depreciation expenses it collects through the annual carrying charges under the gridSMART rider as accumulated depreciation to ultimately be deducted from rate base of distribution-related assets in the company's next distribution rate case or ESP proceeding. OCC argues that the sentence in the gridSMART order addressing depreciation expenses is incomplete, unclear, and requires clarification.
- (13) CSP retorts that the treatment of depreciation expenses was already addressed by the company in its replies and by the Commission in the gridSMART order. CSP states that, in the company's August 10, 2010 reply comments, the company explained that it was recording depreciation of the gridSMART equipment on its books with a contra credit entry to accumulated depreciation which would be deducted from rate base in any future distribution proceeding. The company notes that OCC quotes only a portion of the language from the gridSMART order describing the recording of depreciation. In the next sentence, the Commission specifically states "We find that such transactions avoid double recovery of capital

investments in gridSMART.” CSP believes it is obvious that the Commission was referring to the process implemented by the company and that double counting will be avoided.

- (14) While the Commission believes that the issue of depreciation expense was addressed and the Commission’s intent clearly stated in the gridSMART order, we will nonetheless grant OCC’s request to further clarify our intent. We acknowledge that as a result of a typographical error, the gridSMART order read:

[T]o the extent that CSP is recording depreciation on gridSMART equipment with an entry to accumulated depreciation to be deducted from rate base in any future distribution or ESP proceeding. We find that such transactions avoid double recovery of capital investments in gridSMART. For these reasons, the Commission finds that the issues raised regarding the carrying cost calculation for CSP’s gridSMART rider have been adequately and reasonably addressed.

(gridSMART order at 10). The gridSMART order should have read:

[T]o the extent that CSP is recording depreciation on gridSMART equipment with an entry to accumulated depreciation to be deducted from rate base in any future distribution or ESP proceeding, we find that such transactions avoid double recovery of capital investments in gridSMART. For these reasons, the Commission finds that the issues raised regarding the carrying cost calculation for CSP’s gridSMART rider have been adequately and reasonably addressed.

Our intent was to accept OCC’s argument presented that, if the Commission adopted CSP’s and Staff’s carrying charge proposal, CSP should be directed to record all depreciation expenses it collects through the annual carrying charges in the gridSMART rider as accumulated depreciation and that the accumulated depreciation should be deducted from the rate base of distribution-related assets in the company’s next

distribution or ESP case.⁵ Thus, the Commission clarifies that CSP shall record all depreciation expenses it collects through the annual carrying charges in the gridSMART rider as accumulated depreciation to be deducted from the rate base of distribution-related assets in the company's next distribution case or ESP proceeding.

It is, therefore,

ORDERED, That OCC's application for rehearing is granted, in part, and denied, in part, as discussed herein. It is, further,

ORDERED, That CSP comply with the directives in findings (11) and (14). It is, further,

ORDERED, That a copy of this Entry on Rehearing be served upon all parties of record in this case.

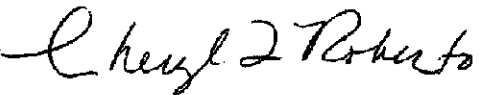
THE PUBLIC UTILITIES COMMISSION OF OHIO


Alan R. Schriber, Chairman


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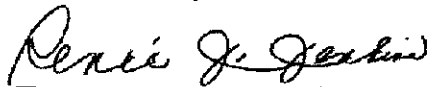

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Entered in the Journal

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Renee J. Jenkins
Secretary

⁵ Second OCC Reply Comments at 4-5 (August 9, 2010).