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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)	
Columbus Southern Power Company for)	Case No. 09-1089-EL-POR
Approval of its Program Portfolio Plan.)	
In the Matter of the Application of)	
Ohio Power Company for Approval of its)	Case No. 09-1090-EL-POR
Program Portfolio Plan.)	

**COLUMBUS SOUTHERN POWER COMPANY'S
AND OHIO POWER COMPANY'S
APPLICATION FOR REHEARING
AND MEMORANDUM IN SUPPORT**

Pursuant to §4903.10, Ohio Revised Code, and 4901:1-35 Ohio Admin. Code, Columbus Southern Power Company and Ohio Power Company ("AEP Ohio" or "Companies") file this application for rehearing of the Commission's January 27, 2010 Order in these dockets. AEP Ohio respectfully requests rehearing on the Commission's January 27, 2011 Entry that denied AEP Ohio's request to continue collection of net lost distribution revenue costs incurred after December 31, 2010. AEP Ohio also seeks clarification on the appropriate venue or docket to seek recovery of net lost distribution revenue costs in the future.

AEP Ohio files this application concerning the Commission's findings in relation to cost recovery authorized by Ohio Admin. Code 4901:1-39-07 and Ohio Revised Code 4928.66. AEP Ohio contends that this denial is unlawful and unreasonable because it denies AEP Ohio the ability to recover expenses permitted by law, the Commission's rules and allowed by the

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Commission's decision adopting AEP Ohio's Program Portfolio Plan. AEP Ohio sets out the rationale in the following memorandum in support.

MEMORANDUM IN SUPPORT OF REHEARING

On November 18, 2010, the Companies filed a motion proposing to extend the Commission approved revenue recovery mechanism approved as part of the Energy Efficiency/Peak Demand Reduction (EE/PDR) programs through December 31, 2011. On January 27, 2011, the Commission denied AEP Ohio's request to extend the then existing revenue recovery process. The Commission denied AEP Ohio's request with clarifications to its May 13, 2010 Order.

The May 13th Order stated that it could not agree with the Stipulation provision that afforded the authority to recover up to three years of net lost distribution revenue, but "*did recognize the Companies would experience lost distribution revenues and should have some opportunity to recovery those revenues.*" (May 13, 2010 Order at 26.) The Commission clarified in the January 27, 2011 Entry that it only intended such recovery through the December 31, 2010 program participation and those impacts. The Commission summarized its Entry by stating, "[h]owever, to the extent that AEP-Ohio is requesting recovery of lost distribution revenue costs incurred after December 31, 2010, such request is denied." (January 27th Entry at ¶8.)

The clarification that December 31, 2010 was intended to be an absolute cutoff point for authority to recover net lost distribution revenue costs appears to contradict the Commission's May 13, 2010 Order. In the May 13, 2010 Order, the Commission specifically established the

ability for the continued collection of net lost distribution revenues through the length of the EE/PDR plan. The Commission stated:

Given that CSP's last distribution rate case occurred in 1991 and OP's last distribution rate case occurred in 1994, AEP-Ohio's actual costs of service are unknown at this time. Therefore, at this time, the Commission will temporarily grant AEP-Ohio lost revenue recovery through January 1, 2011. During this time, AEP-Ohio is encouraged to propose *a mechanism to answer the Commission's concern regarding quantification of fixed costs*, as well as a mechanism to achieve revenue decoupling, *which may include but is not limited to the method proposed in this filing*: lost distribution revenue recovery, a decoupling rider, or any other method which reduces or eliminates the link between sales volume and recovery of fixed distribution costs. If AEP-Ohio proposes a reasonable mechanism, the Commission will consider a request to extend the recovery period while the mechanism is considered.

Emphasis added. May 13, 2010 Order at 26. Moreover, in approving the Stipulation that included the net lost distribution revenue mechanism as part of a package deal, the Commission also adopted a set of EE/PDR programs that AEP Ohio must implement through the end of 2011. Yet, the January 27, 2011 Entry now takes away part of the recovery of those obligations that provided a benefit to AEP Ohio. Further, the mechanism was fully supported by all parties with the exception of the Industrial Energy Users of Ohio.

The Commission had concerns about a cost recovery mechanism that continued without a possibility of considering actual costs of service at some point. In its consideration of how to reach that point, the Commission recognized 1) that the Companies would experience lost distribution revenues and should have some opportunity to recovery those revenues, and 2) that the path to consider the quantification of fixed costs could result in the recovery of lost revenue costs under the same method already proposed by the Commission in the May 13, 2010 Order.

AEP Ohio complied with the Commission's directive and proposed a path to continue the previously approved method while indicating that the Commission's concern regarding quantification of fixed costs would be addressed early in 2011. This approach allows the Companies to recover the net lost distribution revenues the Commission declared it should have some opportunity to recover, while at the same time the Commission has the opportunity to quantify fixed costs.

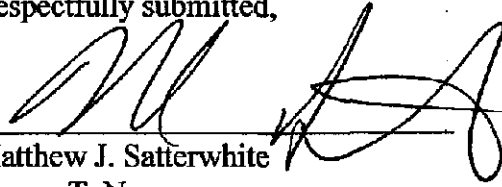
AEP Ohio filed an application for an Electric Security Plan (Case Nos. 11-346-EL-SSO and 11-348-EL-SSO) and the pre-filing notification for a distribution rate case on January 22, 2010 (Case Nos. 11-351-EL-AIR and 11-352-EL-AIR). The Commission now has a full opportunity to quantify the fixed costs in the context of AEP Ohio's pending rate cases. The filing of these cases, in particular the distribution case, is what the Companies relied upon when filing the request to extend the Commission approved collection of net lost distribution revenues. The Commission now has open dockets to address the question raised in the May 2010 Opinion through its consideration of the Companies' 2011 cases.

Therefore, the only factor left unaddressed, and left without a path to be addressed, by the Commission's denial of the Companies' request, is the lack of net lost distribution revenue cost recovery in 2011 associated with EE/PDR programs. As stated above, the Commission itself recognized the fact that the Companies would experience lost distribution revenues and should have some opportunity to recovery those revenues. Denying an opportunity to recover those recognized lost distribution revenues is denying the Companies program costs that were already recognized and approved by the

Commission. The Companies respectfully request that the Commission remedy this inequitable gap in the analysis on this issue and extend the recovery of net lost distribution revenues as soon as possible in 2011 in recognition of the opportunity in the other 2011 cases to answer any unanswered questions the Commission may want addressed.

The clarification in the Commission's January 27, 2011 Entry and the recent decision in a Duke proceeding also raise the need for a clarification on the issue of net lost distribution revenue cost recovery for the future. On February 9, 2011, the Commission issued an Entry on Rehearing in Case No. 09-1999-EL-POR, *In the Matter of the Report of Duke Energy Ohio, Inc. Concerning its Energy Efficiency and Peak-Demand Reduction Programs and Portfolio Planning*. As part of the Commission's consideration of issues on rehearing, the Commission discussed the procedural steps outlined in Rule 4901:1-39-07, Ohio Admin. Code and seemed to suggest that seeking recovery of lost distribution revenues was procedurally appropriate in the context of a Program Portfolio Plan case. Yet, the Commission's decision in the instant case seems to suggest that AEP Ohio needed to resolve issues in a distribution rate case. Accordingly, in addition to seeking reconsideration of the Commission's denial of AEP Ohio's request to extend the net lost distribution revenue mechanism through 2011, AEP Ohio seeks clarification from the Commission on whether the appropriate place to seek lost distribution revenue recovery is within the context of filing a utility portfolio plan or in a different case. Likewise, the Companies seek guidance on the ability to seek 2011 lost distribution revenues under this process if the Commission denies continued recovery under its previously-endorsed method.

Respectfully submitted,



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PROOF OF SERVICE

I certify that Columbus Southern Power Company's and Ohio Power Company's Application for Rehearing was served by First-Class U.S. Mail upon counsel for all parties of record identified below this 25th day of February, 2011.



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