

# BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus	)	
Southern Power Company for Approval of	)	
an Electric Security Plan; an Amendment to	)	Case No. 08-917-EL-SSO
its Corporate Separation Plan; and the Sale or	)	
Transfer of Certain Generating Assets.	)	
In the Matter of the Application of Ohio	)	: :
Power Company for Approval of its Electric	)	Case No. 08-918-EL-SSO
Security Plan; and an Amendment to its	).	
Corporate Separation Plan.	)	:

## COLUMBUS SOUTHERN POWER COMPANY'S AND OHIO POWER COMPANY'S APPLICATION FOR REHEARING

PUCO

On April 19, 2011, the Supreme Court of Ohio issued a Slip Opinion in Case National 2009-2022 regarding the 13 alleged errors raised by the Ohio Consumers' Counsel (OCC) and the Industrial Energy Users-Ohio (IEU) in connection with the Commission's 2009 decision in AEP Ohio's ESP in Case Nos. 08-917-EL-SSO and 08-918-EL-SSO.

See Supreme Court of Ohio Slip Opinion No. 2011-Ohio-1788. On May 4, 2011, the Court issued its mandate – making the Slip Opinion the final decision of the Court and passing jurisdiction back to the Commission in order to conduct a remand proceeding (hereinafter referred to as the Court's "Decision"). More specifically, the Decision reversed the Commission's ESP order on three issues and remanded two of those issues (POLR charge and environmental carrying charge) to the Commission for further consideration, since the first issue was essentially moot. The Court did not rule on the application of its decisions on rates, in fact, the Court left open the option for the

Commission to provide further basis and authority for the decision the Commission already made in a remand proceeding. Also on May 4, 2011, the Commission issued an Entry that directed AEP Ohio to file a tariff amendment by May 11, 2011 to back out the POLR charge increase and the environmental carrying cost adjustment to the non-fuel base generation rate that were awarded to AEP Ohio by the Commission in Case Nos. 08-917-EL-SSO and 08-918-EL-SSO.

Pursuant to §4903.10, Ohio Rev. Code, and §4901-1-35 (A), Ohio Admin. Code, Columbus Southern Power Company (CSP) and Ohio Power Company (OPCo), collectively referred to as "AEP Ohio," seek rehearing of the Commission's May 4, 2011 Entry (Entry). The Commission's Entry is unlawful and unreasonable in the following respects:

- I. The Commission should reverse the Entry's process for a potential two-step rate change and, instead, follow Supreme Court of Ohio precedent requiring that the remand proceeding is supposed to occur before requiring any authorized rates to be changed. Cleveland Electric Illuminating Co. v. Pub. Util. Comm., 1976, 46 Ohio St. 2d 105, 117; 346 N.E.2d 778,786.
- II. The Court's remand order does not support the Entry's treatment of the authorized POLR charge and the authorized environmental carrying cost charge as being unlawful, prior to making any determinations in the remand proceeding. Consumers' Counsel v. Pub. Util. Comm., Slip Opinion No. 2011-Ohio-1788 (April 19, 2011).
- III. The Entry violates R.C. 4903.09, given the absence of an explanation as to why the Commission decided to remove from AEP Ohio's tariffs the POLR and environmental increases authorized in the ESP Order of approximately \$115 million prior to making any substantive determination on remand. Ohio Rev. Code Ann. § 4903.09 (West 2011).
- IV. Because the remedy adopted *sua sponte* in the Entry violates AEP Ohio's due process rights and lacks a basis in the record or law, the order to eliminate the POLR and environmental charges constitutes an abuse of discretion. *Industrial Energy Users-Ohio v. Pub. Util. Comm.*, 114 Ohio St.3d 340, 2007-Ohio-4276, 872 N.E.2d 269, ¶ 26.

A memorandum in support is attached and sets forth the specific grounds supporting the above-listed errors.

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#### **MEMORANDUM IN SUPPORT**

#### **ARGUMENT**

I. The Commission should reverse the Entry's process for a potential two-step rate change and, instead, follow Supreme Court of Ohio precedent requiring that the remand proceeding is supposed to occur before requiring any authorized rates to be changed. Cleveland Electric Illuminating Co. v. Pub. Util. Comm., 1976, 46 Ohio St. 2d 105, 117; 346 N.E.2d 778,786.

The Entry violates the clear procedure established by the Supreme Court of Ohio concerning matters remanded to the Commission for further action. The process ordered by the Commission to modify the filed rates and establish further proceedings to execute the Court's mandate violates well established Court precedent. In Cleveland Electric Illuminating Co. v. Pub. Util. Comm., 1976, 46 Ohio St. 2d 105, 117; 346 N.E.2d 778,786 ("CEI"), the Court clearly stated:

\*\*\*this court's reversal and remand of an order of the commission does not change or replace the schedule as a matter of law, but is a mandate to the commission to issue a new order which replaces the reversed order; and that a rate schedule filed with the commission remains in effect until the commission executes this court's mandate by an appropriate order.

(Emphasis added.) The Commission did not issue an appropriate order addressing the scope of the Court's remand. The Entry mirrors overturned case law and serves as an inappropriate order violating the Court's outlined remand mandate process. The Commission should grant AEP Ohio's application for rehearing or *sua sponte* reverse its May 4, 2011 Entry as violating the Court's holding in *CEI* and establish the process to carry out the items included in the Court's remand.

Consistent with Court precedent, the Court did not rule on the application of its decisions on rates, in fact, the Court left open the path for the Commission to provide

further basis and authority for the decision previously reached by the Commission to be reached again in a remand proceeding. The Court made it clear that it was not determining whether the charges need to be modified but merely questioned the supporting rationale for these two charges and directed the Commission to reconsider the basis supporting the charges. (Decision at ¶ 30, 35.) Likewise, on the lack of support for the provider of last resort charge the Court remanded the matter to the Commission to "consider on remand whether a non-cost-based POLR charge is reasonable and lawful." (Decision at ¶ 30.) Or [a]lternatively, the commission may consider whether it is appropriate to allow AEP to present evidence of its actual POLR costs." (Id.)

Rather than following the Court's mandate to reconsider the basis for the two authorized charges, the Entry skipped that step and ordered a modification to the filed rate, leaving AEP Ohio to separately pursue a replacement rate at some point.

Specifically, the Commission ordered,

Pursuant to the Court's decision, the Commission directs AEP-Ohio to file by May 11, 2011, proposed revised tariffs what would remove the POLR charges and environmental carrying cost charges associated with investments made from 2001-2008, from the companies' tariffs.

Entry at ¶4. The Supreme Court already held that the remand proceeding needs to run its course and that the Court holding should not be used as the determinant to change rates by operation of law in the *CEI* case.

In CEI, the Court overturned a Commission order based on an appeal by a utility company that resulted in a higher rate charged to customers. The utility immediately filed with the Commission to have the rate schedules updated. The Commission then, sua sponte, reversed its order three days later finding that its change in the rates was improper and the motion had no effect under the state of the law as provided in Gene

Slagle, Inc., v. Pub. Util. Comm. (1975), 41 Ohio St. 2d 44, 322 N. E. 2d 640 (the case law ultimately overturned by the Court in the CEI case) ("Slagle").

The Supreme Court established the appropriate process for the treatment of a case on remand to the Commission in the *CEI* case. The Court discussed the nature of the statutory scheme and Commission responsibilities to determine that rates should not be changed by a Court decision, but left to the Commission to update under the statutory process and protections of setting rates by executing the remand appropriately. This holding overruled the previous application of remands that treated reversals from the Court as actions to be applied immediately.

The Court abandoned the reinstatement of rates by operation of law rationale in favor of the need for a reasoned and deliberate Commission action on the remand executing the mandate from the Court. The Court also defined what it considers execution of a remand. The Court determined that the Commission should carry out the Court mandate, specifically, "\*\*\*it therefore follows that the execution of this court's judgment of reversal and remand occurs only when the commission carries out the mandate of this court by its order and not, as held in *Slagle*, at the moment of this court's reversal by operation of law. *Id.* at 113; 784 (emphasis added).

The Court also reestablished the finding in Cincinnati & Suburban Bell Tel. Co. v. Pub. Util. Comm. (1923), 107 Ohio St. 370, 140 N. E. 86, where the Court "held that the reversal and remand of a rate schedule did not act to automatically reinstate the rates theretofore in force." CEI, at 113; 784. Specifically the Court incorporated its previous finding that:

\* \* \* Therefore, when the order of the Public Utilities Commission was reversed by this court, and the cause remanded generally for further proceedings according to law, the cause came again before the Public Utilities Commission for the exercise by it of its judgment, and, if the record before it was not sufficient to enable it to intelligently exercise such judgment, it was its duty to either itself supplement that record or permit the parties interested to make such supplement, and then base its conclusion upon such record.

CEI, at 113; 784 (discussing Cincinnati & Suburban).

The Commission in the present case did not follow this established Court procedure to execute a remand from the Court. The Commission did not carry out an analysis of the issues remanded by the Court and did not follow the Court's established process for leaving the filed rates in effect pending consideration of the remanded issues. As stated above the Court was clear on the proper procedure:

\*\*\*this court's reversal and remand of an order of the commission does not change or replace the schedule as a matter of law, but is a mandate to the commission to issue a new order which replaces the reversed order; and that a rate schedule filed with the commission remains in effect until the commission executes this court's mandate by an appropriate order

CEI, at 117; 786 (emphasis added).

The Entry prematurely assumes the result of the remand proceeding and the unlawfulness of the affected rates without first carrying out the remand duties. This approach violates the Supreme Court of Ohio's prior decisions and enumerated process to handle remanded issues. It is clear in the Commission's Entry that the Commission is not reaching the merits of the Court's remand proceeding as required to amend rates. As such, the Commission erred as a matter of law in applying the overruled *Slagle* procedure and consider items reversed in Supreme Court orders remanded as unlawful or incorrect absent the full remand proceeding. Thus, the Commission should reverse the Entry and

then move forward expeditiously with establishing the parameters of the remand proceeding prior to ordering that any rates be changed.

II. The Court's remand order does not support the Entry's treatment of the authorized POLR charge and the authorized environmental carrying cost charge as being unlawful, prior to making any determinations in the remand proceeding. Consumers' Counsel v. Pub. Util. Comm., Slip Opinion No. 2011-Ohio-1788 (April 19, 2011).

The Court was authorized under R.C. 4903.13 to vacate the POLR and environmental charges but affirmatively decided not to do so. The Entry, however, treats the Court's Decision as if the Court had vacated the POLR and environmental charges – even though the Court explicitly decided not to do so. The Court merely ordered that the Commission reconsider the supporting rationales for the charges through a remand proceeding. The Commission's two-page Entry would eliminate approximately \$115 million¹ of revenue associated with the ESP Order's allowances for a POLR charge increase and a base generation rate increase for environmental investment carrying costs. This result is not required by the Supreme Court Decision and, in fact, ordering the reduction before examining the remand issues, conflicts with the Court's Decision. The flaws with the approach taken in the Entry are clear once the Court's Decision is examined.

Regarding the POLR charge, the Court noted the following about the Commission's basis for the POLR charge:

<sup>&</sup>lt;sup>1</sup> Backing out the POLR charge awarded in the ESP Order from AEP Ohio's tariffs involves the elimination of approximately \$51 million in revenue, presuming that charge is eliminated effective with the first billing cycle of June 2011 and remains in effect through December 2011 (i.e., the remainder of the ESP term). In this same context, backing out the non-fuel base generation increase awarded in the ESP Order (based on pre-ESP environmental investments) from AEP Ohio's tariffs involves the elimination of approximately \$64 million in revenue.

[The Commission] described the charge as cost-based. "[T]he POLR rider will be based on the cost to the Companies to be the POLR and carry the risks associated therewith \* \* \*." (Emphasis added.) Likewise, it stated that it was allowing recovery of "estimated POLR costs." (Emphasis added.) Again on rehearing, the commission stated that it had "determined that the Companies should be compensated for the cost of carrying the risk associated with being the POLR provider." (Emphasis added.) This characterization of the POLR charge as cost-based lacks any record support; therefore, we reverse the portion of the order approving the POLR charge.

(Decision at ¶ 24.) Ultimately, the Court concluded that the decision lacked evidence to support the Commission's "characterization of this charge as based on cost" and it held that "the manifest weight of the evidence contradicts the commission's conclusion that the POLR charge is based on cost." (Decision at ¶ 29.)

Significantly, though the Court was not clear from the ESP Order about the basis for the POLR charge, it emphasized that the remand proceeding need not change the result ordered in the ESP order:

To be clear, we express no opinion on whether a formula-based POLR charge is per se unreasonable or unlawful, and the commission may consider on remand whether a non-cost-based POLR charge is reasonable and lawful. Alternatively, the commission may consider whether it is appropriate to allow AEP to present evidence of its actual POLR costs. However the commission chooses to proceed, it should explain its rationale, respond to contrary positions, and support its decision with appropriate evidence.

(Decision at ¶ 30.) Thus, the assumption made by the Entry that the POLR charge and environmental carrying cost embedded in the base generation rate are unlawful conflicts with ¶ 30 of the Decision. Indeed, the Court went out of its way to make it clear that the reversal and remand to the Commission regarding the POLR charge does not need to result in modifying the POLR charge (let alone summarily eliminating it per the Entry),

nor does the remand suggest that the Commission's continued use of the option model is legally objectionable.

On remand, the Commission can reinforce its decision to authorize the POLR charge, by clarifying its reasoning, better explaining its basis for the charge and reviewing the evidentiary record support for that result. The Court's decision does not preclude continuing reliance on the option model or the related testimony and evidence supporting the approved POLR charge. Based on the extensive development in the record, the Commission adopted a nonbypassable POLR charge reflecting 90 percent of the *modeled* or *estimated POLR costs* presented by the Companies – not actual costs incurred and reimbursed through the charge. The Commission understood that these estimated POLR costs were not necessarily to be incurred by the Companies during the term of the ESP, but that the POLR charge was to compensate the Companies for the expected costs of doing so – whether or not the Companies internalized the risk or covered the risks through external hedging-type transactions.

The Commission's Entry on Rehearing in the ESP Cases stated that "the Commission carefully considered all of the arguments, testimony, and evidence in the proceeding and determined that the Companies should be compensated for the cost of carrying the risk associated with being the POLR provider, including the migration risk." (ESP Cases, Entry on Rehearing at 26.) On remand, the facts can be clarified and explained regarding the ESP Order's reference to AEP Ohio costs. While the Court did not understand the reference to cost since AEP Ohio did not establish in the record that it had incurred specific costs at the time of the ESP hearing and while the Court did not fully understand the Commission's analysis and the evidence of record on this complex

matter, the remand proceeding presents the Commission with a second chance to explain its decision and clarify it for the Court.

Another separate problem with the Entry is that, in accepting the Court's concerns about the POLR charge portion of the ESP Order, it misapprehends the Commission's ESP Order. The Court's remand could be cured by a mere wording clarification. The ESP Order got it right and never contemplated that AEP Ohio would have to incur actual costs or reconcile the revenue requirement awarded; the evidence and parties' briefs also confirm this as well as the wording of the ESP Order. Referring to modeled costs as "costs" does not change the nature or appropriateness of the extensive record and analysis supporting the approved POLR charge; nor does it change the Commission's full understanding of what it approved in the ESP Order.

Regarding the environmental carrying charge challenged in OCC's Sixth Proposition of Law, the Court noted that "OCC argues that R.C. 4928.143(B)(2) does not permit AEP to recover certain carrying costs associated with environmental investments." (Decision and ¶31.) In the ESP Order at 28, the Commission permitted AEP Ohio to adjust its base generation rate to include "incremental capital carrying costs that will be incurred after January 1, 2009, on past environmental investments (2001-2008) that are not presently reflected in the Companies' existing rates, as contemplated in AEP Ohio's RSP Case." The environmental carrying charge for pre-ESP investments was embedded in AEP Ohio's base generation rates and was the topic of OCC's Sixth Proposition of Law.<sup>2</sup>

<sup>&</sup>lt;sup>2</sup> Separately, the Commission authorized AEP Ohio to recover a carrying charge for incremental environmental investments made during the ESP term, based on the Environmental Investment Carrying Charge Rider (EICCR). (ESP Cases, Opinion and

The Court agreed with OCC's position that division (B)(2) of the ESP statute "permits plans to include only listed items; the commission and AEP argue that (B)(2) permits unlisted items. (Decision at ¶ 31.) In particular, the Court re-interpreted the ESP statute as follows:

By its terms, R.C. 4928.143(B)(2) allows plans to include only "any of the following" provisions. It does not allow plans to include "any provision." So if a given provision does not fit within one of the categories listed "following" (B)(2), it is not authorized by statute.

(Decision at ¶ 31.) Though this aspect of the Court's decision may be the most significant precedential aspect of the decision and may end up restricting the breadth and scope of the statute more so than previously understood by the Commission, the Court's holding did not invalidate AEP Ohio's environmental carrying costs embedded within the base generation rate.

As with the POLR charge holding, the Court again carefully avoided a conclusion that the environmental carrying costs are not appropriately recovered under the ESP statute.

For the foregoing reasons, we reverse the commission's legal determination that R.C. 4928.143(B)(2) permits ESPs to include unlisted items. On remand, the commission may determine whether any of the listed categories of (B)(2) authorize recovery of environmental carrying charges.

(Decision at ¶ 35.) Thus, while the Court invalidated the ESP Order's reliance on the "without limitation" language in Section 4928.154(B)(2), Revised Code, the Court left it open for the Commission to consider on remand an alternative statutory provision supporting the environmental charge; the Entry nonetheless proceeds to summarily

Order at 28; Entry on Rehearing at 14.) The EICCR was not the subject of OCC's Sixth Proposition of Law and, consequently, was not part of the Court's reversal or at issue in the remand proceeding.

invalidate the charge that was authorized as part of the ESP Order. On remand, the Commission needs to determine whether another portion of the ESP statute supports recovery of environmental carrying costs. The Commission should reverse the Entry's decision to eliminate the environmental charge and conduct the remand proceeding to verify that an alternative basis in the ESP statute exists to support the charge.

For example, division (B)(2)(d) of the ESP statute authorizes the Commission to establish "terms, conditions, or charges relating to ... carrying costs ..." That provision provides the Commission with an alternative basis to support the continued recovery of the challenged environmental carrying charge. In addition, at least two other subdivisions of ESP statute also provide a statutory basis for the environmental carrying cost charges: (B)(2)(b) (an environmental expenditure for any generating facility of the electric distribution utility) and (B)(2)(e) (which authorizes automatic increases in any component of the standard service price).

Whatever the Commission's reservations or concerns may be about the cost basis for the POLR charge, there is no dispute regarding the approved environmental charge that: (1) the investments were required by existing environmental regulations, (2) they were incremental investments not previously reflected in rates, and (3) the investments were prudently-incurred costs that were actually made by AEP Ohio. Thus, the Commission should act expeditiously to determine on remand (even if it is separate from any determination regarding the POLR charge) that the environmental charge be sustained.

In sum, the Court remanded to the Commission reconsideration of both the POLR and environmental charges and, as discussed above, both charges were clearly a key

component to the ESP package deal approved by the Commission. Therefore, the charges should not be cast aside lightly – especially since doing so may force AEP Ohio to consider withdrawing from the ESP. To be clear, AEP Ohio is not seeking to address the substantive merits of the remand proceeding in this pleading – only the procedural errors. AEP Ohio hopes it will be afforded the opportunity to brief those issues and it will separately pursue the filing referenced in ¶ 5 of the Entry to either reinstate the charges or leave them undisturbed. But the remand should not have been used to strip away charges that were fully litigated and affirmatively approved by the Commission in the ESP Order, prior to reconsidering and applying the issues remanded by the Court. This application for rehearing seeks to have the Commission reverse the Entry's improper remedy of backing out the rate increases prior to even deciding whether the charges should be changed – in order to more appropriately address the merits of the remand proceeding prior to changing any rates.

III. The Entry violates R.C. 4903.09, given the absence of an explanation as to why the Commission decided to remove from AEP Ohio's tariffs the POLR and environmental increases authorized in the ESP Order of approximately \$115 million prior to making any substantive determination on remand. Ohio Rev. Code Ann. § 4903.09 (West 2011).

Section 4903.09, Revised Code, requires the Commission to issue written discussions in contested proceedings, "setting forth the reasons prompting the decisions..." By providing written decisions that explain what the Commission has determined and, just as importantly, why the Commission made a particular determination, the Commission enables those affected by its decisions to understand them. In addition, this requirement also enables the Ohio Supreme Court to properly discharge its duties on appeal to review the Commission's decision-making. *MCI Corp*.

v. Pub. Util. Comm. (1988), 38 Ohio St.3d 266, 270, 527 N.E.2d 777. Thus, the Commission's explanation of the reasons for its decision is required not only for the Court's review but, perhaps more importantly, in order to assure the affected parties that their factual allegations and legal arguments have been fully considered.

The Commission's two-page Entry ordered AEP Ohio's to remove from its tariffs the POLR and environmental increases authorized in the ESP Order of approximately \$115 million, and the only explanation it provides as the rationale for doing so is contained in the single, one-sentence, paragraph of Finding 4. That Finding, which is the only portion of the Entry that hints at what the Commission decided, and why, states only:

"Pursuant to the [Ohio Supreme] Court's decision, the Commission directs AEP Ohio to file by May 11, 2011, proposed revised tariffs that would remove the POLR charges and environmental carrying cost charges associated with investments made 2001-2008, from the Companies' tariffs."

The reasoning that led to the Entry's end result is cannot be discerned from the Entry. It is possible that the Commission believes that the Court held that the POLR and environmental carrying cost charges are, themselves, unlawful, and must be immediately eliminated. Alternatively, the Commission may have believed that the Court left the determination of whether there is an evidentiary and statutory basis for either or both types of charges to the Commission's judgment on remand that the Commission then concluded that there is no alternative evidentiary or statutory basis, and so it eliminated the charges on that basis. Or, perhaps there is some other path of reasoning that led the Commission to do what it did.

The problem is that neither Finding 4 nor any other aspect of the two-page Entry explains what path the Commission actually took to reach the Entry's end result. The

Companies firmly believe that, whatever the reasoning that underlies the Entry, it is fundamentally flawed. The compounding error, though, is that no one, not the Companies, not other interested parties, nor the Court can review that reasoning because it is not contained in the Entry.

Accordingly, the Entry violates Section 4903.09, Ohio Rev. Code.

IV. Because the remedy adopted *sua sponte* in the Entry violates AEP Ohio's due process rights and lacks a basis in the record or law, the order to eliminate the POLR and environmental charges constitutes an abuse of discretion. *Industrial Energy Users-Ohio v. Pub. Util. Comm.*, 114 Ohio St.3d 340, 2007-Ohio-4276, 872 N.E.2d 269, ¶ 26.

The Court did not hold that AEP Ohio's POLR and environmental investment carrying cost charges were unlawful or excessive. Rather, the Court held that the evidentiary basis and the reasoning that led the Commission to approve the POLR charges were inadequate, and that the statutory basis that the Commission relied upon for the environmental charges was improper. Moreover, the Court remanded the case to the Commission for further consideration of the evidentiary basis and reasoning supporting the POLR charges and the appropriate statutory basis for the environmental charges. Yet, without providing the Companies any opportunity on remand to articulate the alternative evidentiary and statutory bases for those charges, the Commission's Entry summarily directs that the charges be eliminated.

There is no record or legal basis for eliminating these legitimate rates that are authorized under the ESP Order and which were not vacated by the Court's decision; the action was not responding to any motion or request by a party or any process established by the Commission; and unilateral action without process necessarily failed to consider the interests and rights of AEP Ohio under the ESP Order – rights that were not modified

by the Court's decision. AEP Ohio's due process right were violated by the Entry summarily, and without explanation or basis, ordering that revenue associated with the POLR and environmental charges of approximately \$115 million be backed out of AEP Ohio's tariffs – without permitting AEP Ohio to be heard or addressing any of the substantial arguments presented by it. Accordingly, the Entry should be reconsidered and reversed.

### **CONCLUSION**

For the foregoing reasons, the Commission should reconsider and reverse its

Entry treating the authorized POLR and environmental charges as being unlawful and
ordering AEP Ohio to file tariffs by May 11 removing the associated increases that were
awarded in the ESP Order. Instead of pursuing the confusing and inefficient two-step
process envisioned in the Entry, the Commission should establish an orderly schedule to
consider the remand issues and decide them in an efficient and expeditious one-step
process as contemplated by the Supreme Court decision.

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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 Application for Rehearing has been served upon the below-named counsel and Attorney Examiners via electronic mail this 6<sup>th</sup> day of May, 2011.

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