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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of :
Columbus Southern Power Company to : Case No. 11-1353-EL-RDR
Update its gridSMART Rider :

**COMMENTS
AND
RECOMMENDATIONS
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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INTRODUCTION

On March 18, 2011, Columbus Southern Power Company (CSP) filed an application to update its gridSMART rider in the above docket. By Attorney Examiner Entry dated April 18, 2011, interested parties and the Commission Staff were invited to submit comments or objections by May 20, 2011 to this update of CSP's gridSMART rider. This submission is timely made on behalf of the Commission Staff.

DISCUSSION

In its Electric Service Plan (ESP) filing (Case No. 08-917-EL-SSO), CSP received Commission approval to proceed with its proposed gridSMART Phase I pilot, a proposal to install three primary components of the smart grid within a portion of its service territory: Advanced Meter Infrastructure (AMI), Distribution Automation (DA), and Home Area Network (HAN). The Commission also authorized CSP to begin recovering its prudently incurred costs associated with this gridSMART pilot through a rider, subject to an annual review and reconciliation. CSP began billing customers for this rider in April, 2009.

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On February 10, 2010, in Case No. 10-164-EL-RDR, CSP filed its annual update of the gridSMART rider. Within this case, CSP explained that it had received an approval for partial reimbursement of the costs of the gridSMART pilot through an application made with the United States Department of Energy (USDOE) under the American Reinvestment Recovery Act (ARRA). Due to requirements for this reimbursement, CSP's gridSMART pilot had expanded to include real-time pricing, community energy storage, smart appliances, cyber security operation center, and plug-in electric vehicle components, in addition to the three primary components listed above. In its August 11, 2010 Order in this case, the Commission approved a revised gridSMART rider based on a fixed monthly per-bill charge, effective September, 2010.

In the current case, CSP has filed its 2010 gridSMART Rider True-up, reflecting actual gridSMART spending and recovery for the year 2010 and calculation of the revenue requirement for 2011, with projected spending for 2011. Though CSP, through its calculation of the 2011 revenue requirement, filed the financial justification for a monthly residential customer charge of 94¢ and non-residential customer charge of \$4.10, it has proposed to not seek these rates but instead maintain the rates approved in last year's rider. The approved monthly rates from Case No. 10-164-EL-RDR currently being billed by CSP are 52¢ residential and \$2.27 non-residential.

Financial Audit

During Staff's review of CSP Schedule 1, Staff discovered that CSP failed to include capital spending made in 2009 in its calculations of the 2010 "capital carrying costs." Staff recalculated this schedule which resulted in a revised Revenue Requirement cost of \$5,893,685, an increase of \$4,155,078 over the \$1,738,607 originally filed by CSP. As a result of the change described above, the monthly rate for Residential Customers would increase from \$.94, as

calculated by CSP, to \$1.28 per customer per month, and the monthly rate for Non-Residential Customers would increase from \$4.10 to \$5.57 per customer per month.

Based on discussions with Company personnel, this change was acknowledged, but CSP still proposes to keep the rates at the same levels as approved in last year's filing, \$.52 per residential customer per month. This position is premised on two factors. First, as a result of the Commission's authorization in 08-917-EL-SSO, the Company began to bill its customers in early 2009, but lower-than-projected spending placed the Company in a position of surplus revenues relative to spending. It had over collected \$6,181,337 as of the date of the filing. Second, the Company represents that it will be stepping up the pace of spending, thereby "catching-up" its projected spending (even counting the netting of ARRA reimbursements) with its over collections from customers. The increased pace of spending could effectively offset the increase of \$4,155,078 described above and the \$6,181,337 over collection.

Staff agrees with the Company's proposal to maintain recovery at the rate levels approved in last year's gridSMART filing (Case. No. 10-164-EL-RDR) based on the fact that the company anticipates that an under recovery will occur for calendar year 2011. From that point forward Staff would intend to approve rates based upon already incurred prudent expenditures net of ARRA reimbursement up to the limit authorized by the Commission in 08-917-EL-SSO.

Adjustment to Distribution Automation (DA) Equipment

During its audit, Staff identified \$6,808,575 in charges for DA Program-related equipment that was either purchased but not installed or installed but not activated. Staff considers such equipment as not fulfilling the "used and useful" requirement for cost recovery,

and therefore recommends the exclusion of these costs from the gridSMART Rider until the equipment is both installed and functioning as intended.

Incremental Labor Expense

In the gridSMART rider filing, the company has included \$211,845 of internal labor expenses and considers these expenses to be incremental in nature. The company believes that filling internal positions with internal employees, called backfilling, is an incremental expense as long as they are specifically dedicated to the project. However, Staff disagrees because the backfilling of a position with an internal employee who is dedicated to a specific project, in and of itself, does not automatically mean that it is incremental. In order for the company to receive recovery for incremental costs through a rider, the company must prove that the costs: (1) are additional/incremental, (2) would not have been incurred but for the project/program, and (3) are verifiable. During staff's investigation, the company did not provide sufficient supporting documentation for the gridSMART labor dollars. Therefore, Staff recommends that the amount of \$211,845 be excluded from O&M dollars of the gridSMART rider.

O&M Expense – Loss on Meters

In this gridSMART rider filing, the company has included \$2,224,834 for loss on the disposal of the electro mechanical meters that were removed due to the installation of the AMI meters as a part of the gridSMART Program. The company states that the volume of retired meters is relatively small and has proposed to expense all of the old meters in one year. However, in Staff's investigation, we found that some of the old meters would be used to replace other meters in the CSP territory and overall had a remaining useful life of approximately 25 years. At the time of the writing of these comments, Staff is still investigating whether and to

what degree CSP may be retaining replaced electromechanical meters for re-use in CSP's territory.

Further, Staff has questions about the appropriateness of expensing retired meters in a single year. However, the term of the rider is uncertain until a decision may be rendered in Case No. 11-346-EL-SSO regarding the extension of the rider beyond the current term of CSP's standard service offer. Even if these uncertainties were resolved now, there would be no impact on Staff's recommendation for continuing the current rate. Staff therefore recommends that the \$2,224,834 for loss on the disposal of the electro mechanical meters be eliminated from 2010 costs, but that the issue of these costs be left open for further consideration in future filings.

Term of the Rider

In CSP's previous ESP filing (Case No. 08-917-EL-SSO), the gridSMART rider was approved for a three year period, ending in 2011. In the Company's most recent ESP filing, Case No. 11-346-EL-SSO, the Company has requested that the term of this rider be extended through December 31, 2013, in order to allow for recovery of the cost of assets that have already been installed or planned to be installed as part of the completion of Phase I of the gridSMART demonstration project.

The monthly rates developed within this rider have been designed to recover the allowable expenses over a twelve month period. If extension of this Rider is not granted, rates from this Rider will have been in effect for less than half of the year and would be suspended at the end of 2011 when the current SSO expires. Granting an extension to the Rider would provide greater certainty and continuity while avoiding a suspension of the rate being billed under this Rider.

As stated above, the Commission endorsed CSP's gridSMART pilot in Case No. 08-917-EL-SSO and "specifically directed AEP-Ohio to pursue federal funds, in an effort to reduce the gridSMART Phase I cost that could be passed on the Ohio ratepayers." (Case No. 08-917-EL-SSO, Entry on Rehearing, July 23, 2009).

The instant case includes actual expenses for 2010, net of ARRA reimbursements applicable to 2010 expenses. Only a small portion of the funds that CSP expects to receive through the ARRA have been reflected in this rider. The majority of the ARRA reimbursements will be reflected in the rider in the next couple years, assuming the extension of the rider is granted. CSP can apply for ARRA reimbursements on qualifying expenses incurred prior to December 31, 2013.

Extension of this rider will permit CSP to continue to recover its expenses for this project, net of ARRA reimbursements, subject to annual Commission review, and subject to annual true-up and reconciliation based on prudently incurred costs.

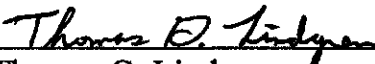
Effective Date of Rider

Current rates from CSP's gridSMART rider (Case No. 10-164-EL-RDR) went into effect September 1, 2010. Though rates are not proposed to change as a result of the instant filing, Staff would consider that rates established in this case would be effective beginning September 1, 2011. These rates would remain in effect for one year, so long as the Commission orders that the rider be extended. If the extension of the rider is not granted, Staff assumes the rates established in this case would expire on December 31, 2011 concurrently with the expiration of the SSO.

Respectfully submitted,

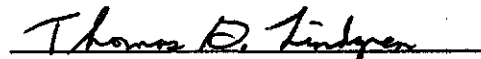
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PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Comments and Recommendations** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage pre-paid, or hand delivered, upon the following Parties of Record this 20th day of May, 2011.


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