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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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

OHIO PARTNERS FOR AFFORDABLE ENERGY'S REPLY COMMENTS

Ohio Partners for Affordable Energy ("OPAE") hereby replies to the comments of the Staff of the Public Utilities Commission of Ohio ("Staff") in the above-captioned application of Columbus Southern Power Company ("CSP") to continue its current charge for its gridSMART program effective September 2011 even though the current charge has resulted in an over-recovery of $6,181,337 to date. Application at 2. The current rider charge, which became effective September 2010, was a reduction from the initial rider charge because projected spending in 2009 also did not meet projections and resulted in an over-recovery from ratepayers. These reply comments are filed in accordance with the Commission's April 18, 2011 Entry in this case.

The Commission first approved recovery of CSP's gridSMART costs over three years in Case No. 08-917-EL-SSO. CSP over-recovered in 2009, the first year of the program. CSP stated that it did not spend the money collected from ratepayers because the United States Department of Energy ("DOE") would not count expenditures made 90 days prior to award notification under the American Reinvestment Recovery Act ("ARRA"). In Case No. 10-164-EL-RDR, the first rider case, CSP proposed that the first-year revenue recovery not be trued up as required in the SSO case and that the Commission ignore the over-recovery in the first year of the program. CSP proposed to continue the same recovery in the second year of the program without any adjustment for the over-recovery in the first year. In the first year, 2009, CSP collected over $7.5 million from ratepayers that it did not spend on gridSMART. Case No. 10-164-EL-RDR, Application Attachment B. In its August 11, 2010 Order in Case No.10-164-EL-RDR, the Commission approved a revised gridSMART rider based on a fixed monthly per-bill charge, effective September 2010.

The current rider application states that 2010 project spending was also less than expected due to the *length of time required* to execute an agreement with DOE. For the first five months of 2010, CSP slowed the pace of the project in order not to exceed DOE reimbursement cap limitations. The current application states that spending ramped up throughout the remainder of 2010, but did not catch up to projections for the calendar year. The delay in project implementation resulted in an over-recovery of $6,181,337 to date under the current rider. The application also states that projected spending for 2011 has been adjusted upwards to reflect escalating deployment on the project. CSP states that as spending catches up to initial projections, the 2010 over-recovery will "decrease." However, CSP does not state that the 2010 over-recovery will be eliminated. While CSP is not seeking to increase the charge in this application, CSP is also not seeking to decrease the charge even though the level of the rider has resulted in a substantial over-recovery, which is not expected to be eliminated at any certain point in time.

The Staff filed its comments on May 20, 2011. The Staff states that the current application, through its calculation of the 2011 revenue requirement, justifies a monthly residential customer charge of $0.94 per month and a non-residential charge of $4.10. This is far higher than CSP's request to maintain the current rates approved in last year's rider, Case No. 10-164-EL-RDR, which are currently being billed; $0.52 for residential customers and $2.27 for non-residential customers. Staff Comments at 2.

The Staff's reference to the 2011 revenue requirement is not well made. There is no reason to have any confidence in CSP's projected spending levels when the spending in the first two years of the program resulted in significant over-recoveries by CSP. CSP's promises to ramp up spending so as to justify the over-collection from ratepayers are not persuasive. These same promises were made during the previous case. The purpose of the rider is to allow CSP to recover actual, incurred, verified, prudent expenditures, net of ARRA reimbursements, not to require ratepayers to make interest-free loans to CSP. The rider to go into effect as a result of this case must be a reduction from the current rider charge in order to reflect actual, incurred, verified, prudent expenditures, net of ARRA reimbursements, made by CSP.

The Staff also conducted a financial audit. The Staff discovered that CSP failed to include capital spending made in 2009 in its calculations of the 2010 capital carrying costs. However, as stated above, CSP began to bill customers in early 2009 even though lower-than-projected spending placed CSP in a position of surplus revenues relative to spending in 2009. CSP over-collected $6,181,337 in 2009. CSP's claims that it will catch up its projected spending, according to the Staff, would offset the increase in capital carrying costs and the $6,181,337 over-collection. The Staff agreed with CSP's proposal to maintain the recovery at the current rider levels approved in last year's grid SMART filing, Case No. 10-164-EL-RDR. Staff was also convinced by CSP's anticipation of an under-recovery in 2011. Staff also states, however, that from this point forward, approved rates would be based upon already incurred prudent expenditures net of ARRA reimbursement up to the limit authorized by the Commission in Case No. 08-917-EL-SSO.

Again, the Staff's optimism is not well founded. Twice CSP has over-recovered and under-spent. Twice, CSP has promised to catch up spending, and twice this promise has been hollow. The current rider should be reduced, not maintained, and should certainly not increase.

The Staff made further recommendations. The Staff identified $6,808,575 in charges for Distribution Automation program-related equipment that was either purchased but not installed or installed but not activated. The Staff considered such equipment as not used and useful for cost recovery and therefore recommended the exclusion of these costs from the gridSMART rider until the equipment is both installed and functioning. The Staff also found that CSP included $211,845 of internal labor expenses and recommended that this amount be excluded from O&M dollars of the gridSMART rider. The Staff stated that in order for CSP to receive recovery for incremental costs through the rider, it must prove that the costs were incremental, would not have been incurred but for the project, and are verifiable. CSP did not provide sufficient supporting documentation for the grid SMART labor dollars. The Staff also found that CSP had included $2,224,834 for loss on the disposal of the electromechanical meters that were removed due to the installation of the AMI meters as part of the gridSMART program. The Staff found that some of the old meters would be used to replace other meters and had a remaining life of approximately 25years. The Staff intended further investigation of CSP's retention of replaced electromechanical meters for re-use. Staff also questioned the appropriateness of expensing retired meters in a single year. Staff recommended that $2,224,834 for loss on the disposal of the electromechanical meters be eliminated from 2010 costs.

In spite of these audit findings, Staff did not recommend any change in the existing rider charges, even given the inappropriate costs and the past over-recoveries. The Staff is apparently so convinced that CSP will catch up spending and under-recover in 2011 that the Staff is prepared to ignore CSP's track record of under-spending and over-recovery. The rider should be reduced in this case, and the Staff's recommendations from its audit should be used to make the necessary reductions.

Finally, the Staff noted that the gridSMART rider was approved for a three-year period ending in 2011. In CSP's most recent ESP filing, Case No. 11-346-EL-SSO, CSP requested that the term of the rider be extended through 2013 in order to allow for recovery of the costs of assets that have already been installed or planned to be installed as part of the completion of Phase 1 of the gridSMART project. The monthly charges for this rider have been designed to recover the allowable expenses over a twelve-month period. If extension of the rider is not granted, rates from the rider will have been in effect for less than half of the year and would be suspended at the end of 2011. Granting an extension would avoid a suspension of the rate being billed under this rider. In addition, only a small portion of the reimbursement funds that CSP expects to receive from the ARRA have been reflected in the rider. Most of the ARRA reimbursements will be reflected in the rider in the next years, assuming the extension of the rider is granted. CSP can apply for ARRA reimbursements on qualifying expenses incurred prior to December 31, 2013. The Staff stated that extension of the rider will permit CSP to continue to recover its expenses for this project, net of ARRA reimbursements, subject to annual review and subject to annual true-up and reconciliation based on prudently incurred costs.

Another reason, not mentioned by Staff, to extend the rider is that it has over-collected from ratepayers to date and will probably over-collect again, given the Staff's failure to recommend a reduction in the current charges. The ARRA reimbursements are also apparently not fully reflected. Ending the rider in 2011 may very well mean that ratepayers will have over-paid again and will never receive the refunds they should receive.

The Commission should deny the application to keep the current charge and should decrease the rider so that it represents actual, verified, prudent 2010 spending and the necessary refund of the past over-recovery to ratepayers. The Commission should not consider continuing the present charge until the over-recovery has been refunded and the charge represents actual current, verified, prudent spending levels. Ratepayers should not be required to provide CSP with an interest-free loan.

In conclusion, the Commission should deny this application to keep the current charges and require that CSP decrease the current charges to refund the over-recovery to ratepayers and to reflect the actual 2010 level of spending. There is no support for CSP's assertion that its spending will "catch up." Its track record in 2009 and 2010 certainly does not support the likelihood of a catch-up or the need for recovery of the level of expenditures originally approved in the SSO case. It is not reasonable to charge ratepayers for expenditures that are not being made. The Commission should reduce the rider taking into account the significant over-recoveries and the actual level of current expenditures.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of these Reply Comments was served by regular U.S. Mail upon the following parties identified below in this case on this 31st day of May 2011.

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