16

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company, Individually and, if Their Proposed Merger is Approved, as a Merged Company (collectively, AEP Ohio) For an Increase in Electric Distribution Rates.	)	Case No. 11-351-EL-AIR Case No. 11-352-EL-AIR
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company, Individually and, if Their Proposed Merger is Approved, as a Merged Company (collectively AEP Ohio) for Tariff Approval.	)	Case No. 11-353-EL-ATA Case No. 11-354-EL-ATA
In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company, Individually and, if Their Proposed Merger is Approved, as a Merged Company (collectively AEP Ohio) for Approval to Change Accounting Methods.	)	Case No. 11-356-EL-AAM Case No. 11-358-EL-AAM

OBJECTIONS TO THE STAFF REPORTS OF INVESTIGATION AND SUMMARY OF MAJOR ISSUES OF OHIO PARTNERS FOR AFFORDABLE ENERGY AND THE APPALACHIAN PEACE AND JUSTICE NETWORK

INTRODUCTION

Ohio Partners for Affordable Energy ("OPAE") and the Appalachian Peace and Justice Network ("APJN"), parties to the above-captioned cases, hereby submit these objections to the Staff Reports of Investigation ("Staff Reports") and a summary of major issues in these cases. The Staff Reports were filed with the Public Utilities Commission of Ohio ("Commission") on September 15, 2011 in these matters concerning the applications of Columbus Southern Power Company ("CSP") and Ohio Power Company ("OP") (together, "Companies") for an increase in electric distribution rates, for tariff approval, and for approval to change accounting methods. The

Companies filed the pre-notification of intent to increase distribution rates on January 27, 2011, and the applications on February 28, 2011.

OBJECTIONS

I. **OPAE and APJN object to the CSP Staff Report recommendation that CSP's revenue increase be in the range from $(9,541,000) to ($2,303,000) when even this revenue decrease will still result in CSP having excessive earnings. CSP Staff Report at 67, Schedule A-1, Page 1 of 1.**

II. **OPAE and APJN object to the OP Staff Report recommendation that OP's revenue increase be in the range from $23,220,000 to $31,909,000 when this revenue increase will result in OP having excessive earnings. OP Staff Report at 68, Schedule A-1, Page 1 of 1.**

The Staff has signed a Stipulation and Recommendation in Case Nos. 11-346-EL-SSO, et al., allowing for the creation of non-bypassable distribution cost recovery riders. Case No. 11-346-EL-SSO, et al., are the Companies' applications to establish a generation standard service offer ("SSO"). The stipulation allows for an Enhanced Service Reliability Rider, a Storm Damage Recovery mechanism, and a Distribution Investment Rider ("DIR"). Stipulation and Recommendation, Case Nos. 11-346-EL-SSO (September 7, 2011) at 8-11.

The Staff Reports state that the Companies have requested to establish the DIR as a cost recovery mechanism and to establish the expenditure level above which the Companies would be allowed to recover distribution related Operation and Maintenance and capital expenses on a quarterly basis. The Staff Reports state that approval of Rider DIR is appropriately considered in the Companies' applications to establish the SSO, Case Nos. 11-346-EL-SSO, et al. Staff Reports at 17.

OPAE and APJN object to the Staff Reports' assertion that the DIR is appropriately considered in the SSO cases. OPAE and APJN also object to the DIR and the other distribution cost recovery riders being established in the generation SSO case. The non-bypassable distribution rider, Rider DIR, would permit significant distribution rate increases, capped at $86 million in 2012, $104 million in 2013, and $124 million in 2014 with deferrals and subsequent collection of investments exceeding the caps. See Stipulation, Section IV.1.n. and Testimony of Joseph G. Bowser in Case Nos. 11-346-EL-SSO, et al., October 13, 2011.

If the DIR recommended in the Stipulation in Case Nos. 11-346-EL-SSO, et al., is adopted and if the distribution rates recommended in the Staff Reports are approved, the total distribution rate increases that the Companies will be permitted to impose will provide the Companies with an unwarranted and unreasonable windfall profit. It is unreasonable for the Commission to allow distribution rate increases through the DIR mechanism in the SSO case. Distribution investments should be addressed in distribution rate case proceedings, not in SSO stipulations.

Moreover, the Commission has already determined that CSP had significantly excessive earnings in 2009. Opinion and Order, Case No. 10-1261-EL-UNC, et al., (January 11, 2011). Testimony filed at the Commission indicates that CSP likely accrued the same significantly excessive earnings for 2010. Testimony of Daniel J. Duann and Testimony of Lane Kollen, Case Nos. 11-4571-EL-UNC, et al., (October 12, 2011). The testimony of Ohio Consumers' Counsel witness Duann shows that CSP's 2010 return on equity was 19.42% and that CSP customers are entitled to an estimated refund of $41,086,771. Testimony of Daniel

Duann, Case Nos. 11-4571-EL-UNC, et al., at 4 (October 12, 2011). The testimony of Ohio Energy Group's Lane Kollen recommends a refund of at least $40,810,000. Testimony of Lane Kollen at 4. Although the significantly excessive earnings are not all related to distribution service, it is obvious that the rates established by the Commission for these Companies are excessive.

Given the Staff's agreement with Rider DIR and the other distribution riders in the SSO case, the existence of multiple distribution cost recovery riders, and the likelihood of significantly excessive earnings in 2010 for CSP, the Staff's proposed revenue requirements result in distribution rates that are excessive, unjust and unreasonable for both Companies. The merger between OP and CSP that is a part of the stipulation in the SSO case only minimally masks the excessive earnings that will inure to AEP. The Staff is recommending that the ratemaking process for regulated distribution utilities be bypassed in favor of riders that guarantee cost recovery in practically automatic fashion.

III. OPAE and APJN object to the Staff Recommendation that the rate of return be set in the range of 7.06% to 7.57% for CSP and 7.05% and 7.6% for OP and the cost of common equity range of 8.58% to 9.59% for CSP and 8.59% to 9.60% for OP because these ranges provide an excessive return when compared to the risk faced by the Companies as providers of monopoly electric distribution service. CSP Staff Report at 14-16; OP Staff Report at 14-16.

The Staff Reports fail to quantify the level of reduction of the rate of return that is appropriate given the reduced risk to the Companies as providers of monopoly electric distribution service and as recipients of cost recovery through various riders. The Staff Report errs in not reducing the rate of return sufficiently to reflect the minimal risk faced by the Companies for purposes of a return on their investment to provide monopoly electric distribution service. Moreover, the Companies' financial and business risks are even lower given the Staff Reports' adoption of the large increase in customer charges, other fixed charges, and a series of variable riders designed to recover costs previously incurred and going forward..

The multiple distribution cost recovery riders, such as the proposed Deferred Asset Recovery Rider, CSP's smartGrid rider, the proposed DIR and storm damage mechanism, the enhanced service reliability rider, etc., effectively eliminate the risk of recovery for costs associated with the distribution system. The new regulatory paradigm treats the recovery of the revenue requirement as an entitlement; the riders coupled with high customer and miscellaneous charges are designed to guarantee recovery of that entitlement. As a result, these utilities face little risk, as opposed to the standard regulatory compact that had a risk premium because utilities were only provided with the *opportunity* to recover their costs, not guaranteed cost recovery. Because the new regulatory regime guarantees recovery, there should be a significant reduction in the allowed rate of return and the cost of equity should be adjusted downward to reflect the assured recovery of the revenue requirement.

IV. OPAE and APJN object to the revenue conversion factor recommended in the Staff Reports for failing to use actual effective federal and state tax rates paid by the Companies.

The Staff employs an approach to developing the revenue conversion factor that includes elements that gross up recovery for federal and state taxes. This is appropriate but only if the level of federal and state taxes used is the effective tax rates actually paid by the utilities. Otherwise, customers are paying far more to compensate a utility for taxes than the utility actually pays in taxes.

The Staff uses a federal income tax rate of 35%. CSP Staff Report at 68 Schedule A-2, Page 1 and at 126 Schedule C-4, Page 1; OP Staff Report at 69 Schedule A-2, Page 1 and at 122 Schedule C-4, Page 1. The Staff does not verify that the Companies are actually paying a federal income tax rate of 35%. Public data indicates that the holding company, AEP, may have paid no federal income taxes in 2009 and may have actually received a refund. The Staff should determine the actual federal tax rate paid by the Companies and use this rate for the revenue conversion factor.

V. OPAE and APJN object to the Staff Reports' increases in certain miscellaneous charges: the reconnection charges at the meter (normal hours single phase), the collection charges, the meter test charge, and the charges to investigate tampering or fraudulent practice.

For CSP, the Staff recommends a reconnection charge at the meter single phase during normal hours of $41 when the current charge is $11.30. The Staff's recommendation amounts to practically a quadrupling of the current charge. CSP Staff Report at 27. For OP, the Staff recommends a reconnection charge at the meter single phase during normal hours of $65, when the current charge is $36. This is a recommended increase of 80%. (OP only requested an increase to $53). OP Staff Report at 28.

For CSP, the Staff recommends a disconnect/reconnection charge at the customer's request of $77 when the current charge is $30.00. CSP Staff Report at 27. For OP, the Staff recommends a disconnect/reconnection charge at the customer's request of $77, when the current charge is $30. OP Staff Report at 28. Both of these increases are over 100%.

For CSP, the Staff recommends a collection charge of $16 when the current charge is $8.00. CSP Staff Report at 27. This is a 100% increase. For OP, the Staff recommends a collection charge of $23, when the current charge is $18. This is a remarkable Staff recommendation when OP proposed a *decrease* of $2 from the current charge. OP Staff Report at 28.

For CSP, the Staff recommends a single phase meter test charge of $56 when the current charge is $28.00. This is a 100% increase. CSP Staff Report at 27. For OP, the Staff recommends a single phase meter test charge of $71, when the current charge is $59. Again, the Staff is recommending an amount that exceeds OP's request of $64. OP Staff Report at 28.

For CSP, the Staff recommends a charge to investigate tampering or fraudulent practice of $49 when the current charge is $25.00. CSP Staff Report at 27. For OP, the Staff recommends a charge to investigate tampering or fraudulent practice of $49, when the current charge is $0. OP Staff Report at 28.

These increases are excessive and also violate regulatory principles of gradualism and the requirement that there be a balancing of interests between the utility and customers. These miscellaneous charges should be maintained at the current levels.

VI. OPAE and APJN object to the Staff Reports' increases in the residential customer charges.

The Staff Reports recommend a residential customer charge of $8.40 for CSP and OP, an 86% increase over the current customer charge for a CSP residential customer of $4.52 and an 120% increase over the current residential customer charge of $3.82 for OP. Staff Reports at 36-38. These increases are excessive; the increased customer charges will harm customers with low usage and reduce incentives to achieve greater energy efficiency. The increased customer charges also violate regulatory principles of gradualism and a balancing of interests between the utility and customers. The residential customer charges should be maintained at the current levels.

The effects of the increased customer charges can be seen on Schedule E, Page 2 for CSP at 164 of the Staff Report and at 165 of the OP Staff Report. A residential customer using 300 kWh or less in summer will receive an increased bill even though the Staff recommends a decreased revenue requirement for CSP. However, for CSP, a residential customer using 500 kWh or more in summer will receive a reduced bill. The bill increase for the CSP and OP residential customer using 300 kWh is 3.21%, while the decrease for the customer using 1,500 kWh is -5.32% and the decrease for the customer using 10,000 kWh is -7.43%. Schedule E5, Page 2. Thus, the increase in customer charges punishes the low-use customer and rewards the high-use customer. It also is likely to have a greater adverse effect on low-income customers, as they are more likely to be low-use customers. This is the wrong direction to take.

VII. OPAE and APJN object to the Staff Reports' references to the straight fixed variable rate design. CSP Staff Report at 36-37; OP Staff Report at 35-36.

The Staff Reports ask how fixed costs that are not recovered through a customer charge can be recovered when the demand is not known. CSP Staff Report at 36; OP Staff Report at 35. The Staff Reports state that, according to the Companies' testimony, the increases in the residential customer charge of 86% in CSP and 120% in OP will provide customers with a more constant monthly electric distribution bill that fluctuates less with kWh usage. The Staff Reports also state that past customer charges have been only minimally compensatory. The Staff states that it has adopted the Companies' customer charges but "a Straight Fixed Variable rate design (if that design is found to be desirable) will be addressed in future proceedings." Staff Reports at 36-37.

OPAE and APJN object to the Staff Reports' favorable reference to the Straight Fixed Variable rate design. This Rate design discourages energy conservation and efficiency measures. It also frustrates low-usage customers and adds costs to them, while reducing rates paid by high-use customers. The Straight Fixed Variable rate design is inappropriate for monopoly electric distribution service and should not be addressed in the future proceedings.

VIII. OPAE and APJN object to the Staff Reports' changing the interest rate paid on deposits made by customers from the current annual rate of 5% to an annual rate of 3%. OP Staff Report at 10; CSP Staff Report at 10.

OPAE and APJN object to the lower interest rate paid on customer deposits as the Staff's proposal of a decrease to 3% is insufficient. Moreover, the Staff approves carrying charges on deferrals for the Companies far in excess of 3%. The Staff should align the interest rate paid to customers on deposits made by customers to the carrying charge rates paid by customers on the Companies' deferrals.

IX. OPAE and APJN object to the Staff Reports' acceptance of the Deferred Asset Recovery Rider and the recovery period of seven years and the use of the Commission's latest long-term cost of debt to calculate the carrying cost during the recovery period. Staff Reports at 13.

Above, OPAE and APJN objected to the lower interest rate paid on customer deposits of 3% as insufficient. While cutting the interest paid to customers on their deposits to a minimal 3%, the Staff recommends that the Companies be allowed to use the long-term cost of debt to calculate the carrying charges during the seven year recovery period of the Deferred Asset Recovery Rider. This will be far in excess of the 3% customers will receive on their deposits. This is unreasonable. The Staff should align the carrying charge rates customers will pay on the Deferred Assets to the interest rates customers will receive on their deposits.

X. OPAE and APJN object to acceptance in the Staff Reports of the Companies' method of allocating cost to the various classes because the Companies' method fails to represent the utilities' system characteristics.

The allocation to each customer class of costs associated with the distribution function should be based on each class's actual use of the system, i.e., energy consumption rather than a coincident peak analysis. The coincident peak analysis establishes a demand cost for each class, which is used to in turn to establish the revenue responsibility. While this approach may have some efficacy when allocating costs for generation, which deals primarily with the adequacy of capacity to service load, it is inappropriate to use this convention when allocating distribution costs. OPAE and APJN object to the Staff Reports' acceptance of the Companies' cost of service analysis.

XI. OPAE and APJN object to the Staff Reports' allocation of costs to the residential class based on the Companies' method of allocating costs because this method results in an excessive cost responsibility for the residential class.

The Staff Reports accept a cost of service study that is inappropriate for costs associated with electric distribution service. Therefore, the Staff Reports' allocation of costs to the residential class is excessive and not supported by sound regulatory and public policies.

XII. OPAE and APJN object to the failure of the Staff Reports to require that the Companies offer affordable payment plans based on the customer's energy burden and income.

Customers are not well served by 'one size fits all' payment plans which are often unaffordable and ultimately put customers in danger of disconnection. Data clearly indicates that the number of disconnections is increasing, especially in the high-usage summer and winter months. This is not surprising, given the persistence of the Great Recession and the inability of the Ohio economy to recovery the catastrophic job losses incurred in this state.

Payment plans should be customized based on a customer's income and the resulting energy burden on the customer; payment plans should consider the percentage of a customer's income spent on utility bills. The Staff Reports erred in failing to require the Companies to offer affordable payment plans based on the customer's energy burden and income.

XIII. MAJOR ISSUES

Pursuant to Revised Code Section 4903.083, OPAE and APJN propose the following summary of major issues:

1. The appropriateness of residential and commercial tariffs which over-allocate costs to these customer classes because of a cost of service approach which does not accurately reflect the utility system;
2. The appropriate rate design, customer charges and miscellaneous charges for residential customers;
3. The appropriate rate of return for ratemaking purposes;
4. The appropriate level of test-year revenues;
5. The appropriate level of operating and maintenance expenses;
6. The appropriate level of rate base;
7. The existence of distribution cost recovery riders that undermine the rate making process herein.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Objections to the Staff Report of Investigation of Ohio Partners for Affordable Energy and the Appalachian Peace and Justice Network and Summary of Major Issues was served electronically in this case on this 17th day of October 2011.

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