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

OPINION AND ORDER

The Commission, considering the above-entitled applications, the stipulation and recommendation, and the record in these proceedings, hereby issues its Opinion and Order in these matters.

APPEARANCES:

Steven T. Nourse, Mathew J. Satterwhite, and Anne M. Vogel, American Electric Power Service Corporation, One Riverside Plaza, 29th Floor, Columbus, Ohio 43215-2373, on behalf of Columbus Southern Power Company and Ohio Power Company.

Mike DeWine, Attorney General of the State of Ohio, by Werner L. Margard III, Stephen A. Reilly, and Devin D. Parram, Assistant Attorneys General, 180 East Broad Street, Columbus, Ohio 43215-3793, on behalf of the Staff of the Public Utilities Commission of Ohio.

Bruce J. Weston, Interim Ohio Consumers' Counsel, Office of the Ohio Consumers' Counsel, by Maureen R. Grady and Larry S. Sauer, Assistant Consumers' Counsel, 10 West Broad Street, Columbus, Ohio 43215-3485, on behalf of the residential utility consumers of Columbus Southern Power Company and Ohio Power Company.

Boehm, Kurtz & Lowry, by Michael L. Kurtz, 36 East Seventh Street, Suite 1510, Cincinnati, Ohio 45202, on behalf of Ohio Energy Group.

McNees, Wallace & Nurick, LLC, by Matthew Pritchard, Samuel C. Randazzo, Joseph E. Oliker, and Frank P. Darr, 21 East State Street, Suite 1700, Columbus, Ohio 43215-4228, on behalf of Industrial Energy Users-Ohio.

Colleen L. Mooney, 231 West Lima Street, P.O. Box 1793, Findlay, Ohio 45840, on behalf of Ohio Partners for Affordable Energy.

Bricker & Eckler, LLP, by Lisa G. McAlister and Matthew W. Warnock, 100 South Third Street, Columbus, Ohio, 43215-4291, on behalf of Ohio Manufacturers Association- Energy Group.

Bricker & Eckler, LLP, by Thomas J. O'Brien, 100 South Third Street, Columbus, Ohio 43215-4291, and Richard L. Sites, 155 East Broad Street, 15th Floor, Columbus, Ohio 43215-3620, on behalf of Ohio Hospital Association.

FirstEnergy Service Company by Mark A. Hayden, 76 South Main Street, Akron, Ohio 44308; Calfee, Halter & Griswold, LLP, by James F. Lang, Laura C. McBride, and N. Trevor Alexander, 1400 KeyBank Center, 800 Superior Avenue, Cleveland, Ohio 44114, on behalf of FirstEnergy Solutions Corporation.

Joseph V. Maskovyak and Michael R. Smalz, Ohio Poverty Law Center, 555 Buttles Avenue, Columbus, Ohio 43215, on behalf of Appalachian Peace and Justice Network.

Henry W. Eckhart, 1200 Chambers Road, Suite 106, Columbus, Ohio 43212, on behalf of the Sierra Club.

Williams, Allwein & Moser, LLC, by Christopher J. Allwein, 1373 Grandview Avenue, Suite 212, Columbus, Ohio 43212, on behalf of Natural Resources Defense Council.

Vorys, Sater, Seymour & Pease, LLP, by Benita A. Kahn and Lija Kaleps-Clark, 52 East Gay Street, Columbus, Ohio 43216-1008, and Hogan Lovells, US, LLP, by

John Davidson Thomas, Columbia Square, 555 Thirteenth Street, NW, Washington, DC 20004, on behalf of the Ohio Cable Telecommunications Association.

SNR Denton US, LLP, by Emma F. Hand and Douglas G. Bonner, 1301 K Street NW, Suite 600 East Tower, Washington, D.C. 20005, on behalf of Ormet Primary Aluminum Corporation.

Chester, Wilcox & Saxbe, LLP, by John W. Bentine, Mark S. Yurick, and Zachary D. Kravitz, 65 East State Street, Suite 1000, Columbus, Ohio 43215-4213, on behalf of The Kroger Company.

Bell & Royer Co., LPA, By Barth E. Royer, 33 South Grant Avenue, Columbus, Ohio 43215-3927, on behalf of Ohio Department of Development.

OPINION:

I. HISTORY OF THE PROCEEDINGS

Columbus Southern Power Company (CSP) and Ohio Power Company (OPCo) (jointly, Applicants or AEP-Ohio) are electric light companies as defined by Section 4905.03(A)(3), Revised Code, and public utilities as defined by Section 4905.02, Revised Code. Applicants are, therefore, subject to the jurisdiction of this Commission pursuant to Sections 4905.04, 4905.05, and 4905.06, Revised Code.

On February 28, 2011, AEP-Ohio filed applications seeking an increase in electric distribution rates, approval of tariff modifications, and approval of changes to certain accounting methods.

Written reports of the Commission staff's (Staff) investigation (Staff reports) were filed on September 15, 2011. Objections to the Staff reports were timely filed by the Ohio Cable Telecommunications Association (OCTA), the Office of the Ohio Consumers' Counsel (OCC), Industrial Energy Users-Ohio (IEU-Ohio), Ohio Partners for Affordable Energy (OPAE), the Appalachian Peace and Justice Network (APJN), the Ohio Department of Development (ODOD), the Ohio Hospital Association (OHA), and Applicants. Additionally, motions to intervene were filed by IEU-Ohio, Ohio Energy Group (OEG), OHA, OPAE, OCC, Natural Resources Defense Council (NRDC), FirstEnergy Solutions Corp. (FES), Ormet Primary Aluminum Corporation (Ormet), APJN, The Kroger Company (Kroger), Ohio Manufacturers' Association Energy Group (OMAEG), OCTA, The Sierra Club, and ODOD. The attorney examiner granted intervention to these parties on November 1, 2011. Further, motions for admission *pro hac vice* were filed by Douglas G. Bonner and Emma F. Hand on behalf of Ormet in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR, respectively, and by John Davidson Thomas on behalf of OCTA in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR. The attorney examiner granted these motions for admission *pro hac vice* on November 1, 2011.

Local public hearings were held on October 17, 2011, in Marietta, Ohio; on October 18, 2011, in Canton, Ohio; on October 24, 2011, in Lima, Ohio; and, on October 26, 2011, in Columbus, Ohio. Ten witnesses testified at the local public hearings.

On November 2, 2011, a prehearing conference was held. The evidentiary hearing was held on November 14, 2011, November 17, 2011, November 29, 2011, and November 30, 2011. Four witnesses testified in support of a stipulation and recommendation (Stipulation), which was filed on November 23, 2011, by Applicants, Staff, OCC, OPAE, APJN, OEG, OMAEG, Kroger, NRDC, OHA, Ormet, OCTA, ODOD, and the Sierra Club (signatory parties). IEU-Ohio and FES were not signatory parties to the Stipulation, but represented at the hearing that they did not oppose the Stipulation.

II. CONSIDERATION OF THE STIPULATION

A. Summary of the Proposed Stipulation

The Stipulation was intended to resolve all of the issues raised in these proceedings through the applications filed by AEP-Ohio (Joint Ex. 1 at 1). The following is a summary of the terms of the Stipulation agreed to by the signatory parties and is not intended to replace or supersede the Stipulation. The signatory parties agree and recommend that:

(1) The outcome of the provisions in the Stipulation will result in a zero base distribution rate increase (Joint Ex. 1 at 3).

   (a) The value of CSP's property which is used and useful in the rendition of distribution of electric power, or rate base, is $908,001,000, and the current operating income is $65,194,000, resulting in a rate of return of 7.18 percent (*Id.* at 4, Stipulated Schedule A-1).

   (b) The value of OPCo's property which is used and useful in the rendition of distribution of electric power, or rate base, is $1,003,670,000, and the current operating income is $55,763,000, resulting in a rate of return of 5.56 percent (*Id.* at 4-5, Stipulated Schedule A-1).

(c) A just and reasonable rate of return for CSP would be 7.78 percent, which would require an operating income of $70,643,000. At current rates, there would be a net operating income deficiency of $5,448,000. The stipulated total revenue requirement of $371,978,000 would result in a revenue increase of $8,517,000 for CSP. (*Id.* at 5, Stipulated Schedule A-1.)

(d) A just and reasonable rate of return for OPCo would be 7.97 percent, which would require an operating income of $79,992,000. At current rates, there would be a net operating income deficiency of $24,230,000. The stipulated total revenue requirement of $375,344,000 would result in a revenue increase of $38,139,000 for OPCo. (*Id.*)

(e) CSP and OPCo are entitled to returns on equity of 10.0 percent and 10.3 percent, respectively (*Id.*).

(f) The combined increase in distribution base rate revenue requirements of $46,656,000 shall terminate on May 31, 2015 (*Id.*).

(g) In order to prevent excess collection of distribution revenue associated with collection of the Distribution Investment Rider (DIR) sought in the September 7, 2011, Stipulation filed in *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer*, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO (ESP II Stipulation), a $62,344,000 revenue credit shall be applied as outlined by the terms of this Stipulation. This credit shall be derived from subtracting $23,656,000 of DIR revenues related to certain post-date distribution investments, actual and estimated, through December 2012, from the $86,000,000 DIR cap for 2012 in the ESP II Stipulation. (*Id.* at 6.)

(h) The first $46,656,000 of DIR revenue credit will negate the base distribution revenue requirement stated above, resulting in a net $0 base distribution rate increase until such rates may be established pursuant to an application for establishing rates filed under Section 4909.18, Revised Code. The remaining $15,688,000 DIR revenue collected will be applied annually through May 31, 2015, as follows:

(i) The first $14,688,000 of remaining DIR revenue credit will be applied solely to residential customers through a new Commission-approved rider during the term in which the DIR is in effect through May 31, 2015. The total credit to residential customers' bills during this term will be no greater than $50,184,000.

(ii) The final $1,000,000 DIR annual revenue credit will be used to fund the Partnership with Ohio Initiative, totaling $3,400,000 during the term in which the DIR is in effect. This low-income bill payment assistance funding will be provided through the Partnership with Ohio Initiative's existing Neighbor-to-Neighbor program. (*Id.* at 6-7.)

(2) The zero base distribution rate increase includes amortization of the depreciation reserve overaccrual identified in the Staff reports. The schedule will reflect a ten-year amortization of the theoretical accumulated depreciation reserve overaccrual; however, in recognition of the overall compromises in this Stipulation, AEP-Ohio will amortize the depreciation reserve overaccrual over a seven-year period. (*Id.* at 7-8.)

(3) AEP-Ohio will be authorized to establish new depreciation rates based on the whole-life method as recommended by the Staff reports, and, if the merger of CSP and OPCo is approved, the combined company will utilize the combined rates detailed in Attachment D to the Stipulation (*Id.* at 8).

(4) AEP-Ohio will withdraw its application in Case Nos. 11-148-EL-RDR and 11-149-EL-RDR seeking approval of a rider to recover a

portion of Percentage of Income Payment Plan (PIPP) installment payments in recognition that recovery of those PIPP amounts is included in the distribution base rate revenue requirement agreed to in the Stipulation (*Id.*).

(5) A new rider, the Deferred Asset Recovery Rider (DARR), will be implemented to collect Applicants' distribution regulatory assets requested in the applications, to be based upon a uniform percentage of base distribution charges for each company, or a single percentage if the merger is approved. The DARR requested in the applications will be modified as follows:

(a) The monthly accumulated balance over- or under-recovery will accrue a carrying charge equal to a long-term debt rate of 5.5 percent for CSP and 5.27 percent for OPCo, or a combined rate of 5.34 percent if the merger is approved.

(b) The seven-year DARR recovery period will begin upon the later of (1) the first billing cycle upon Commission approval of the Stipulation, or (2) the first billing cycle of 2012. (*Id.* at 8-9.)

(6) AEP-Ohio shall create a decoupling pilot program (Pilot) by submitting to the Commission compliance tariffs to establish the Pilot Throughput Balancing Adjustment Rider applicable to the residential and GS-1 tariff rate schedules. The Pilot shall be for calendar years 2012, 2013, and 2014. There shall be no cap of annual rate decreases to customers attributable to the Pilot; however, annual increases attributable to the Pilot shall be capped at 3 percent of the total annual distribution revenues for a customer class. (*Id.* at 10.)

(7) AEP-Ohio shall not collect from customers net lost distribution revenues associated with residential and GS-1 load in its 2012 through 2014 energy efficiency/peak demand reduction plan (*Id.*).

(8) AEP-Ohio will adopt a revenue-neutral distribution rate design for demand-metered customers (*Id.*).

(9) AEP-Ohio will include data related to its DIR investments and their effect on distribution service reliability in its next application(s) to

establish new service standards under Rule 4901:1-10-10, Ohio Administrative Code (O.A.C.) (*Id.* at 10-11).

(10) The pole-attachment tariff will be amended as shown in Attachment P to the Stipulation (*Id.* at 11).

(11) In AEP-Ohio's next distribution rate case filing, AEP-Ohio will propose a single set of distribution tariffs for all rate schedules so that customers will pay the same applicable distribution rates whether they take standard service or open access service for their generation supply (*Id.*).

B. Evaluation of the Stipulation

The Stipulation in the present proceedings is unopposed. Rule 4901-1-30, O.A.C., authorizes parties to Commission proceedings to enter into stipulations. Although not binding on the Commission, the terms of such agreements are accorded substantial weight. See *Consumers' Counsel v. Pub. Util. Comm.*, 64 Ohio St.3d 123, 125, 1992-Ohio-122, citing *Akron v. Pub. Util. Comm.*, 55 Ohio St.2d 155, 157, 378 N.E.2d 480 (1978). This concept is particularly valid where the stipulation is supported or unopposed by the vast majority of parties in the proceeding in which it is offered.

The standard of review for considering the reasonableness of a stipulation has been discussed in a number of prior Commission proceedings. See, e.g., *Dominion Retail v. Dayton Power and Light*, Case Nos. 03-2405-EL-CSS, et al., Opinion and Order (February 2, 2005); *Cincinnati Gas & Electric Co.*, Case No. 91-410-EL-AIR, Order on Remand (April 14, 1994); *Ohio Edison Co.*, Case Nos. 91-698-EL-FOR, et al., Opinion and Order (December 30, 1993); *Cleveland Electric Illum. Co.*, Case No. 88-170-EL-AIR, Opinion and Order (January 31, 1989). The ultimate issue for our consideration is whether the agreement, which embodies considerable time and effort by the signatory parties, is reasonable and should be adopted. In considering the reasonableness of a stipulation, the Commission has used the following criteria:

(1) Is the settlement a product of serious bargaining among capable, knowledgeable parties?

(2) Does the settlement, as a package, benefit ratepayers and the public interest?

(3) Does the settlement package violate any important regulatory principle or practice?

The Ohio Supreme Court has endorsed the Commission's analysis using these criteria to resolve issues in a manner economical to ratepayers and public utilities. *Indus. Energy Consumers of Ohio Power Co. v. Pub. Util. Comm.*, 68 Ohio St.3d 559, 561, 1994-Ohio-435, quoting *Consumers' Counsel*, 64 Ohio St.3d at 126. The Court stated in *Consumers' Counsel* that the Commission may place substantial weight on the terms of a stipulation, even though the stipulation does not bind the Commission. 64 Ohio St.3d at 126.

Based upon our three-prong standard of review, we find that the first criterion, that the settlement process involved serious bargaining by knowledgeable, capable parties, is met. Counsel for the signatory parties have been involved in many cases before the Commission, including a number of prior cases involving rate issues. Further, the signatory parties represent a variety of diverse interests, including the Companies, residential customers and consumer advocacy groups, industrial and commercial customers, environmental advocacy groups, and Staff (Co. Ex. 4 at 4, 11). A review of the terms of the Stipulation, and the schedules and tariffs filed with the Stipulation, shows that the parties engaged in comprehensive negotiations, resolving all outstanding issues including rate design (Co. Ex. 4 at 4-9; NRDC Ex. 1 at 8).

The Stipulation also meets the second criterion. As a package, it advances the public interest by resolving the issues raised in this proceeding without incurring the time and expense of further litigation. Moreover, the record indicates that the Stipulation establishes a fair and reasonable revenue requirement with no increase in base distribution rates. The Stipulation also provides for an annual revenue credit to residential customers of $14,688,000 million and an annual revenue credit to Partnership with Ohio to benefit lower income customers (Co. Ex. 4 at 12-13; Co. Ex. 5 at 8).

The signatory parties also claim that the pilot revenue decoupling program provided for by the Stipulation advances the public interest (Co. Ex. 4 at 13; OCC Ex. 1 at 5-8; NRDC Ex. 1 at 8-9). Nonetheless, the Commission has concerns that the pilot revenue decoupling program is not the unmitigated benefit to customers portrayed by the signatory parties. We note that, on four previous occasions, we determined that a straight fixed variable rate design was more appropriate for residential natural gas distribution customers than a throughput balancing adjustment rider (Tr. 40-41). The Commission also notes that we have opened a proceeding to investigate the appropriate rate design to properly align the interests of utilities and consumers in support of the state policy regarding energy efficiency. *In Matter of Aligning Electric Distribution Utility Rate Structure with Ohio's Public Policies to Promote Competition, Energy Efficiency and Distributed Generation*, Case No. 10-3126-EL-UNC. The signatory parties claim that the pilot program will provide useful information in support of that investigation (Co. Ex. 5 at 8). However, the record contains no description of how such useful information regarding the pilot program is to be obtained or evaluated. Therefore, the Commission directs the signatory parties to prepare a detailed proposal regarding the type of data proposed to be obtained, how that data will be obtained, and metrics to evaluate the success of the pilot program. This proposal should be filed in Case No. 10-3126-EL-UNC within six months of the issuance of this Opinion and Order.

Moreover, the Commission notes that, in the Staff reports, Staff recommended that the Commission adopt AEP-Ohio's proposed residential rate design, noting that the rate design included a customer charge designed to reflect distribution costs which are fixed and do not vary as a result of usage. Further, at the evidentiary hearing, NRDC witness Sullivan acknowledged that, although he believed that variable costs are appropriately collected through volumetric rates, fixed distribution costs should be collected through fixed customer charges (Tr. at 20-21). OCC witness Gonzalez also noted that new technologies, such as plug-in electric vehicles, may increase demand for electricity (Tr. at 41-42). However, the Stipulation provides that the existing residential rate design will continue without change. Therefore, the Commission finds that it is necessary to take additional steps, beyond the Stipulation, to ensure that an adequate record is established to review residential rate design at the conclusion of the three year pilot program. First, AEP-Ohio is directed to update its cost of service study, prior to the final year of the pilot program, and file the updated study in this proceeding. Interested parties will then be provided with an opportunity to comment upon the updated cost of service study. Second, unless otherwise ordered by the Commission, AEP-Ohio's residential distribution rates will be adjusted, on a revenue neutral basis, to rates which are consistent with the rate design recommended by Staff in the Staff Reports and which will produce the annual revenue requirement agreed to in the Stipulation. Finally, the throughput balancing adjustment rider will be extended past its proposed termination date in 2015 until otherwise ordered by the Commission.

Finally, the Commission finds that, with respect to the third criterion, the evidence in the record demonstrates that the Stipulation does not violate any important regulatory principle or practice (Co. Ex. 4 at 12; OCC Ex. 1 at 8-9). The Commission notes that the Stipulation eliminates any potential for double recovery of distribution investments through distribution base rates and the distribution investment rider (DIR) provided for by AEP-Ohio's electric security plan in *In re Columbus Southern Power Company and Ohio Power Company*, Case Nos. 11-346-EL-SSO, et al. (Co. Ex. 4 at 5).

Our review of the Stipulation indicates that it is in the public interest and represents a reasonable resolution of the issues in this case. We will, therefore, adopt the Stipulation in its entirety.

III. RATE OF RETURN AND AUTHORIZED INCREASE

As stipulated by the parties, under their present rates, CSP and OPCo would have respective net operating incomes of $65,194,000 and $55,763,000. Applying these figures to CSP's and OPCo's respective rate bases of $908,001,000 and $1,003,670,000 yields respective rates of return of 7.18 percent and 5.56 percent. Such rates of return are insufficient to provide CSP and OPCo with reasonable compensation for distribution of electric power service rendered to their customers. (Joint Ex. 1 at 4-5, Stipulated Schedule A-1.)

The parties have recommended rates of return of 7.78 percent for CSP and 7.97 percent for OPCo on the companies' stipulated rate bases of $908,001,000 and $1,003,670,000, respectively. Consequently, as the parties have stipulated, the required net operating incomes for the companies are $70,643,000 for CSP and $79,992,000 for OPCo. Additionally, the parties have stipulated that just and reasonable increases in the revenue requirements for CSP and OPCo are $8,517,000 and $38,139,000, respectively. (Joint Ex. 1 at 4-5, Stipulated Schedule A-1.)

IV. EFFECTIVE DATE AND TARIFFS

As part of its investigation in this matter, Staff reviewed the various rates, charges, and provisions governing terms and conditions of service contained in Applicants' proposed tariffs. Proposed revised tariffs in compliance with the Stipulation were submitted by the signatory parties (Joint Ex. 1). Upon review, the Commission finds the proposed revised tariffs to be reasonable. Consequently, AEP-Ohio shall file final tariffs reflecting the revisions. The new tariffs will become effective for all services rendered on and after the effective dates of the tariffs.

FINDINGS OF FACT:

(1) On February 28, 2011, AEP-Ohio filed applications seeking an increase in rates, approval of tariff modifications, and approval of changes to certain accounting methods.

(2) Motions to intervene were filed by IEU-Ohio, OEG, OHA, OPAE, OCC, NRDC, FES, Ormet, APJN, Kroger, OMAEG, OCTA, Sierra Club, and ODOD, which the attorney examiner granted on November 1, 2011.

(3) Motions for admission *pro hac vice* were filed by Douglas G. Bonner and Emma F. Hand on behalf of Ormet in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR, respectively, and by John Davidson Thomas on

behalf of OCTA in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR, which the attorney examiner granted on November 1, 2011.

(4) On September 15, 2011, Staff filed its written reports of investigation with the Commission. Objections to the Staff reports were timely filed by OCTA, OCC, IEU-Ohio, OPAE, APJN, ODOD, OHA, and AEP-Ohio.

(5) The local public hearings were held on October 17, 2011, in Marietta, Ohio; on October 18, 2011, in Canton, Ohio; on October 24, 2011, in Lima, Ohio; and, on October 26, 2011, in Columbus, Ohio, all pursuant to published notices.

(6) The evidentiary hearing was held on November, 14, 2011, November 17, 2011, November 29, 2011, and November 30, 2011, at which time the case was submitted on the record.

(7) A Stipulation was submitted on November 23, 2011. At the hearing on November 30, 2011, the two non-signatory parties, IEU-Ohio and FES, stated that they did not oppose the Stipulation.

(8) The values of CSP's and OPCo's property which is used and useful in the rendition of distribution of electric power, or base rates, are $908,001,000 and $1,003,670,000, respectively.

(9) CSP's and OPCo's net operating incomes for the test year were $65,194,000 and $55,763,000, respectively.

(10) Net operating incomes for CSP and OPCo of $65,194,000 and $55,763,000, respectively, are insufficient to provide CSP and OPCo with reasonable compensation for distribution of electric power service rendered to their customers.

(11) Just and reasonable increases in the revenue requirements for CSP and OPCo are $8,517,000 and $38,139,000, respectively.

(12) CSP and OPCo are entitled to overall rates of return of 7.78 percent and 7.97 percent, respectively.

(13) CSP and OPCo are entitled to overall returns on equity of 10.0 percent and 10.3 percent, respectively.

CONCLUSIONS OF LAW:

(1) AEP-Ohio's applications to increase rates were filed pursuant to, and this Commission has jurisdiction of the applications under, the provisions of Sections 4909.17, 4909.18, and 4909.19, Revised Code, and the applications comply with the requirements of these statutes.

(2) Staff investigations were conducted, reports of those investigations were duly filed and mailed, and public hearings were held, the written notices of which complied with the requirements of Sections 4909.19 and 4903.083, Revised Code.

(3) The ultimate issue for the Commission's consideration is whether the Stipulation, which embodies considerable time and effort by the signatory parties, is reasonable and should be adopted. In considering the reasonableness of the Stipulation, the Commission has used the following criteria:

(a) Is the settlement a product of serious bargaining among capable, knowledgeable parties?

(b) Does the settlement, as a package, benefit ratepayers and the public interest?

(c) Does the settlement package violate any important regulatory principle or practice?

(4) The Stipulation was the product of serious bargaining among capable, knowledgeable parties, advances the public interest, and does not violate any important regulatory principles or practices. The unopposed Stipulation submitted by the signatory parties is reasonable and should be adopted in its entirety.

(5) The existing rates and charges for electric distribution service are insufficient to provide CSP and OPCo with adequate net annual compensation and returns on their property used and useful in the provision of electric distribution services.

(6) Rates of return for CSP and OPCo of 7.78 percent and 7.97 percent, respectively, are fair and reasonable under the circumstances of these proceedings and are sufficient to provide CSP and OPCo just

compensation on returns on their property used and useful in the provision of electric distribution services.

(7) CSP and OPCo are authorized to withdraw their current tariffs and to file, in final form, revised tariffs as approved by the Commission herein.

<u>ORDER</u>:

It is, therefore,

ORDERED, That the Stipulation presented in these proceedings be adopted by the Commission. It is, further,

ORDERED, That the applications of CSP and OPCo for authority to increase electric distribution rates, approval of tariff modifications, and approval of changes to certain accounting methods, are granted to the extent provided in this Opinion and Order. It is, further,

ORDERED, That Applicants are each authorized to file in final form four complete copies of tariffs consistent with this Opinion and Order, and to cancel and withdraw their superseded tariffs upon the effective date of the revised tariffs. One copy shall be filed with these case dockets, one copy shall be filed in each of Applicants' TRF dockets, and the remaining two copies shall be designated for distribution to the rates and tariffs division of the Commission's utilities department. Applicants shall also update their tariffs previously filed electronically with the Commission's docketing division. It is, further,

ORDERED, That Applicants shall notify all affected customers of the tariffs via bill message or bill insert within 30 days of the effective date of the revised tariffs. A copy of this customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability and Service Analysis Division, at least ten days prior to its distribution to customers. It is, further,

ORDERED, That the effective date of the revised tariffs shall be a date not earlier than the date of this Opinion and Order, the date upon which four complete copies of final tariffs are filed with the Commission, and the date on which the proposed customer notice is filed with the Commission. The revised tariffs shall be effective for services rendered on or after such effective date. It is, further,

ORDERED, That the signatory parties prepare a detailed proposal in accordance with Section II, Subsection B, of this Opinion and Order. It is, further, ORDERED, That AEP-Ohio update its cost of service study and file the updated study in this proceeding in accordance with Section II, Subsection B, of this Opinion and Order. It is, further,

ORDERED, That a copy of this Opinion and Order be served on all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Todd A. Snitchler, Chairman

Paul A. Centolella

Steven D. Lesser

Andre T. Porter

Cheryl L. Roberto

GAP/MLW/dah

Entered in the Journal

DEC 14 2011

Betty McCauley

Betty McCauley
Secretary