

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Fuel Adjustment)
Clauses for Columbus Southern Power) Case No. 09-872-EL-FAC
Company and Ohio Power Company.) Case No. 09-873-EL-FAC

THIRD ENTRY ON REHEARING

The Commission finds:

- (1) Columbus Southern Power Company (CSP) and Ohio Power Company (OP) (jointly, AEP-Ohio or the Companies)¹ are public utilities as defined in Section 4905.02, Revised Code, and, as such, are subject to the jurisdiction of this Commission.
- (2) By opinion and order issued on March 18, 2009, as clarified by the entry on rehearing issued on July 23, 2009, in Case Nos. 08-917-EL-SSO and 08-918-EL-SSO, the Commission modified and approved AEP-Ohio's application for an electric security plan (ESP) for 2009 through 2011, which included approval of a fuel adjustment clause (FAC) mechanism for CSP and OP, under which the Companies recovered prudently incurred costs associated with fuel, including consumables related to environmental compliance, purchased power costs, emission allowances, and costs associated with carbon-based taxes and other carbon-related regulations.² The approved FAC mechanism provided for quarterly reconciliations to actual FAC costs incurred by the Companies, which established the FAC rates for the subsequent quarter, as well as an annual audit of the accounting of the FAC costs. The Commission also authorized a phase-in of AEP-Ohio's ESP rates during the term of the ESP by deferring a portion of the annual incremental FAC costs such that the amount of the incremental FAC expense to be recovered from customers would be limited so as not to exceed specified percentage increases on a total bill basis.

¹ By entry issued on March 7, 2012, the Commission approved and confirmed the merger of CSP into OP. *In the Matter of the Application of Ohio Power Company and Columbus Southern Power Company for Authority to Merge and Related Approvals*, Case No. 10-2376-EL-UNC.

² *In the Matter of the Application of Columbus Southern Power Company for Approval of an Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Assets*, Case No. 08-917-EL-SSO; *In the Matter of the Application of Ohio Power Company for Approval of its Electric Security Plan; and an Amendment to its Corporate Separation Plan*, Case No. 08-918-EL-SSO.

- (3) On May 14, 2010, Energy Ventures Analysis, Inc. (EVA) filed, in the present cases, a management/performance (m/p) and financial audit report in response to its annual audit of AEP-Ohio's FAC mechanism for 2009 (audit report).
- (4) On January 23, 2012, the Commission issued its opinion and order regarding the annual audit of AEP-Ohio's FAC mechanism for 2009 (FAC order). With respect to the financial audit recommendations contained in the audit report, the Commission adopted financial audit recommendations 1 through 5, as well as 6a through 6i, with the exclusion of 6b. The Commission also adopted m/p audit recommendations 2 through 6, as contained in the audit report.

In m/p audit recommendation 1, EVA recommended that the Commission consider whether any proceeds from a settlement agreement that American Electric Power Service Corporation had executed with a coal supplier in 2007 (settlement agreement) should be credited against OP's FAC under-recovery for 2009. The settlement agreement was effectively a buy-out of the contract with the coal supplier after 2008. Pursuant to the terms of the settlement agreement, OP received a lump sum payment (made in three equal payments) and coal reserve in West Virginia. In the FAC order, the Commission determined that all of the realized value from the settlement agreement should be credited against OP's FAC under-recovery for 2009. The Commission specified that the portion of the \$30 million lump sum payment not already credited to the ratepayers of OP, as well as the \$41 million value of the West Virginia coal reserve booked when the settlement agreement was executed, should be credited against the FAC under-recovery. Additionally, because the present value of the West Virginia coal reserve is unknown and the permitting process is expected to enhance its value, the Commission indicated that a request for proposal would be issued by subsequent entry to hire an auditor to examine the value of the West Virginia coal reserve. The Commission noted that the auditor would be expected to make a recommendation as to whether the increased value of the West Virginia coal reserve, if any, above the \$41 million already required to be credited against OP's FAC under-recovery should accrue to ratepayers.

Finally, the Commission determined that the delivery shortfall agreement and the contract support agreement would not be further examined as part of the current audit. The Commission noted, however, that these agreements may be examined in a future audit, given that their impact on AEP-Ohio's fuel costs, if any, appeared to occur in time periods outside of the current audit.

- (5) Section 4903.10, Revised Code, states that any party who has entered an appearance in a Commission proceeding may apply for a rehearing with respect to any matters determined therein by filing an application within 30 days after the entry of the order upon the Commission's journal.
- (6) On February 22, 2012, applications for rehearing of the FAC order were filed by AEP-Ohio, Industrial Energy Users-Ohio (IEU-Ohio), and the Ohio Consumers' Counsel (OCC).
- (7) On March 2, 2012, AEP-Ohio filed a memorandum contra the applications for rehearing of the FAC order filed by IEU-Ohio and OCC. On March 5, 2012, IEU-Ohio and OCC filed memoranda contra AEP-Ohio's application for rehearing of the FAC order.
- (8) By entry on rehearing issued on March 21, 2012, the Commission granted the applications for rehearing of the FAC order to allow further consideration of the matters specified in the applications.
- (9) On April 11, 2012, the Commission issued an entry on rehearing granting, in part, and denying, in part, the applications for rehearing filed by AEP-Ohio, IEU-Ohio, and OCC, as discussed in the entry (FAC entry on rehearing).
- (10) On May 11, 2012, IEU-Ohio filed an application for rehearing of the FAC entry on rehearing.
- (11) On May 21, 2012, AEP-Ohio filed a memorandum contra IEU-Ohio's application for rehearing.
- (12) The Commission believes that sufficient reason has been set forth by IEU-Ohio to warrant further consideration of the matters specified in its application for rehearing. Accordingly, the application for rehearing filed by IEU-Ohio should be granted.

It is, therefore,

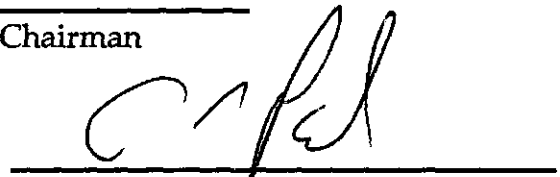
ORDERED, That the application for rehearing filed by IEU-Ohio on May 11, 2012, be granted for further consideration of the matters specified in the application for rehearing. It is, further,


ORDERED, That a copy of this third entry on rehearing be served upon all parties of record.

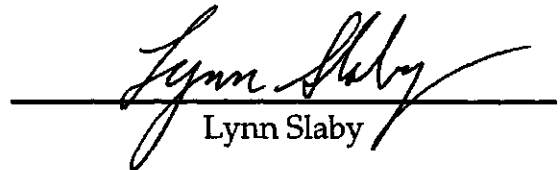
THE PUBLIC UTILITIES COMMISSION OF OHIO


Todd A. Snitchler, Chairman


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Barcy F. McNeal
Secretary