

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)	Case No. 11-346-EL-SSO
Columbus Southern Power Company)	Case No. 11-348-EL-SSO
and Ohio Power Company for)	
Authority to Establish a Standard)	
Service Offer Pursuant to §4928.143,)	
Ohio Rev. Code, in the Form of an)	
Electric Security Plan.)	Case No. 11-349-EL-AAM
)	Case No. 11-350-EL-AAM
In the Matter of the Application of)	
Columbus Southern Power Company)	
and Ohio Power Company for)	
Approval of Certain Accounting)	
Authority.)	

REPLY MEMORANDUM OF THE KROGER CO.

I. INTRODUCTION

As noted in Ohio Power Company's (hereinafter "AEP-Ohio") Memorandum Contra Intervenor's Application for Rehearing ("AEP-Ohio Memo. Contra"), filed in the present docket on September 17, 2012, The Kroger Co. ("Kroger") argued in this case, and in its Application for Rehearing, that the RSR should be rejected. (AEP-Ohio Memo. Contra at page 45-47, Kroger Brief at 3-5). Kroger also argued that the Commission should reject AEP-Ohio's proposed DIR. (AEP-Ohio Memo. Contra at page 63, Kroger Brief at 10-12).

However, Kroger further urged that in the event that the Commission approved the RSR and DIR, the Commission should alter these charges in order to further the goals of cost-based rate making and the articulated policy of the State of Ohio. First, with respect to the RSR, Kroger explained that AEP-Ohio's proposed cost recovery mechanism improperly recovered demand based costs (properly allocated to customer

classes on the basis of contribution to demand) through an energy charge. (AEP-Ohio Memo. Contra, at 45-47). Second, with respect to the DIR, Kroger explained that the DIR should be assigned to the former Ohio Power Company rate zones and Columbus Southern Power rates zones in a separate and distinct manner to properly account for and recover the costs that are uniquely incurred to provide service to each of the rate zones, consistent with the fundamental ratemaking principle of assigning costs on the basis of cost causation. (AEP-Ohio Memo. Contra, at p. 63).

These alternatives were noted by the Commission, but ultimately not addressed. (Order at 30, 43-44). As noted above, AEP-Ohio's Memo. Contra notes these arguments, and urges the Commission to reject them. Because AEP-Ohio's Memorandum Contra fails to adequately explain why these points should not be adopted, the Commission should incorporate these reasonable concepts into the Order on Rehearing.

II. ARGUMENT

A. The Commission's Order Unreasonably Requires Demand-billed Customers to Pay RSR Costs Through an Energy Charge When the Costs in Question are Demand Costs, Properly Allocated to Customer Classes on the Basis of Contribution to Demand.

The Commission approved the RSR and held that a non-bypassable RSR "provides certainty for retail electric service, as is consistent with Section 4928.143(B)(2)(d), Revised Code." (Order at 32).

Since the Commission is apparently going to accept some form of RSR, the Commission should at least make certain that the rate design for RSR for demand-billed customers is appropriate, reflects traditional rate making principles and mirrors actual cost causation. AEP concedes, as it must, that calculation of the RSR begins with an

allocation of demand related costs to customer classes on the basis of demand, but then inexplicably recovers these costs through an energy charge, resulting in cross subsidies between customers within the various rate classes. It is axiomatic that demand related costs that are properly allocated on the basis of a customer's contribution to those demand related costs should be appropriately recovered through a demand charge, not an energy charge. To do otherwise would mix apples and oranges. As noted in Kroger's Application for Rehearing, the Commission failed to address Kroger's argument related to the improperly derived energy charge to recover demand related costs. The Commission did not specifically address whether the RSR charge should be structured as a demand charge for demand-billed customers under the RSR. This issue was a significant matter to Kroger, which raised the issue in testimony and briefing.

As noted previously, AEP-Ohio initially allocates RSR-related costs to the "GS-2/3/4, SBS, EHG, EHS, SS" group on the basis of the group's aggregate share of the 5 CP demand. This allocation of demand related costs to various customer groups based upon that group's contribution to demand costs is appropriate. However, for no apparent reason other than perhaps convenience, AEP-Ohio chooses to recover these demand costs based upon a common energy charge for all customers within a given customer group. As a result of this very basic rate design flaw, customers with high load factors will be forced to subsidize low load factor customers. The result is unreasonable because a customer's energy consumption over a period of time bears no direct relationship to that customer's contribution to peak demand. However, there is an "easy fix" to this very basic flaw. If the Commission simply requires AEP to formulate an appropriate demand-based charge, cost-shifting and subsidization among customers

within a rate class will be eliminated, and appropriate cost-causers will pay their fair contribution to demand costs into the RSR.

In its Memorandum Contra, AEP-Ohio states without explanation, "The Kroger Co./OMAEG/OHA approach of assigning RSR revenue responsibility within each customer class based on demand would unduly burden the low load factor customer in the commercial and industrial classes. As a related matter, the RSR is not entirely driven by the capacity charge discounts, but is tied to the total ESP package and reflects benefits for all customers that are associated with more than just demand-related components." (AEP-Ohio Memo. Contra, at p. 47).

It is true that in a fair and accurate rate design for the RSR, low load factor customers will pay their fair share of their contributions to demand costs. In the absence of a subsidy, those customers may pay more than they would pay if they were being subsidized. That is not an undue burden. It is a function of paying their fair share of their contribution to demand costs. AEP-Ohio's second point - that there are unidentified overall benefits to the flawed rate design - is vague and non-sensical. AEP-Ohio admittedly measures and allocates the costs to be recovered through traditional demand based metrics. These are demand related costs, properly allocated according to demand, and there is no overall benefit to customers as a whole to recovering these demand costs through an energy charge. There is certainly no enhancement to overall certainty or stability.

The Commission's failure to incorporate Kroger's recommendation that demand costs be recovered through a demand charge is unreasonable and significantly impacts and jeopardizes Kroger's right as an intervenor to protect its interests in this proceeding. Kroger respectfully reiterates its request that the Commission order a rehearing of the

proceeding to correct the RSR's fundamentally flawed rate design and the resulting improper energy charge to demand-billed customers.

B. The Commission Unreasonably Permits AEP-Ohio to Aggregate the DIR Charge in OP's and CSP's Former Service Territories.

The Commission approved AEP-Ohio's proposed DIR on the basis that O.R.C. § 4928.143(B)(2)(h) authorizes an ESP to include the recovery of capital cost for distribution infrastructure investment. (Order at 46).

Be that it may, the proposal to aggregate the incremental investment in OP's and CSP's former service territory in DIR should have been rejected. In the Order, the Commission noted Kroger's objection: "In addition, Kroger asserts that the DIR for the CSP rate zone and the OP rate zone are distinct and the cost of each unique service area should be maintained and the distribution costs assigned on the basis of cost causation." (Order at 44). However, the Commission failed to incorporate this concept into its order without addressing any flaw in Kroger's reasoning.

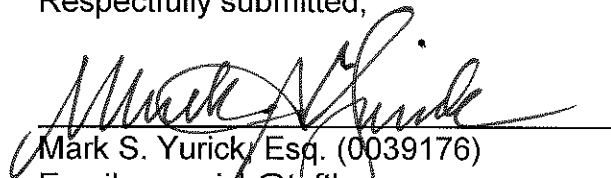
It is fair to all AEP-Ohio customers to assign distribution costs on the basis of cost causation. Indeed, the Commission determined appropriately that PIRR costs, which had been separately recorded in the two service areas, should be recovered via distinct charges in each rate zone, consistent with this principle. (Order at 55-56). The DIR, as approved, does not assign distribution costs to customers on a reasonable basis because there are unique costs associated with CSP and OP distribution territories that are well known to AEP-Ohio. These unique costs should be directly assigned to the customers in each service territory, rather than randomly blended into a single rate that will force the customers in one rate zone to subsidize the costs of service in the other. AEP-Ohio can still operate as a single entity while maintaining separate distribution costs based on distribution assets specific to each territory.

In its Memorandum Contra, AEP states: "The concern raised by Kroger on inequitable investment is an area for the Staff to consider." (Ohio Power Memorandum Contra, at 63). While it is true that the Staff should consider the inequitable treatment of customers in the two distinct service areas that would result from arbitrarily merging distribution rates, it is ultimately the responsibility of the Commission to direct Staff to avoid this admittedly unfair and irrational result. CSP makes no reasoned argument that Kroger is mistaken on this point, and makes no real attempt to justify this random and arbitrary merger of the rate. The Commission should reverse its decision and provide a rehearing to appropriately address this unresolved issue.

III. CONCLUSION

For the reasons set forth herein, the Kroger Company respectfully requests that the Commission grant rehearing to address and make findings regarding 1) the improper energy charge to demand-billed customers under the RSR; and 2) the flawed aggregation of incremental distribution investment in OP's and CSP's former service territory.

Respectfully submitted,



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CERTIFICATE OF SERVICE

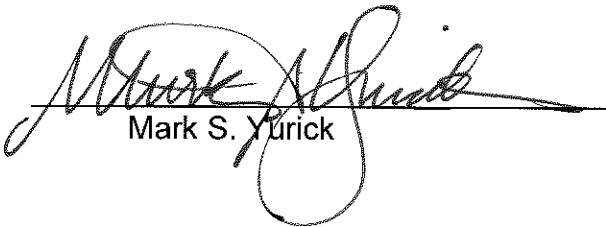
I hereby certify that a copy of the foregoing pleading was served via electronic mail on this 24th day of September, 2012 upon counsel for all parties of record in this case.

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Summary: Reply Memorandum of The Kroger Co. electronically filed by Mark Yurick on behalf of The Kroger Company