

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)	
Ohio Power Company to Update)	Case No. 13-1201-EL-RDR
the Energy Efficiency and)	
Peak Demand Reduction Rider.)	

In the Matter of the Application of)	
Ohio Power Company to Update)	Case No. 12-1557-EL-RDR
the Energy Efficiency and)	
Peak Demand Reduction Rider.)	

**OHIO POWER COMPANY’S MEMORANDUM CONTRA THE APPLICATION FOR
REHEARING FILED BY THE OFFICE OF THE OHIO CONSUMERS’ COUNSEL**

I. INTRODUCTION

On August 1, 2014, The Office of the Ohio Consumers’ Counsel (“OCC”) filed an Application for Rehearing (“OCC AFR”) of the Public Utilities Commission of Ohio’s (“Commission”) July 2, 2014, Finding and Order (“Order”). OCC argues that the Order is unjust, unreasonable and unlawful because: 1) the Order approved updated rates for Ohio Power Company’s (“AEP Ohio” or the “Company”) Energy Efficiency and Peak Demand Reduction (“EE/PDR”) rider prior to the completion of a financial audit of the rider (OCC AFR at 5); 2) the Order failed to approve the updated EE/PDR rates subject to refund (OCC AFR at 6); and 3) the Order failed to specify that the forthcoming financial audit of the rider should include verification of the methodology for calculating and amount of shared savings (OCC AFR at 7). As discussed below, OCC’s grounds for rehearing are either unnecessary or premature and should be denied.

II. ARGUMENT

In addition to approving updated rates for AEP Ohio's EE/PDR rider, the Order adopted Staff's recommendation for a financial audit of the rider. Order at ¶14. While the specific parameters of the audit will likely be forthcoming in a subsequent entry, the Company understands that the financial audit of AEP Ohio's EE/PDR rider would function similar to the financial audit of AEP Ohio's fuel adjustment clause. In a FAC proceeding, however, there are two distinct audits performed. Here, the Staff has already reviewed the substance of the Company's filing and specifically determined that only a financial audit was needed:

The Staff has reviewed AEP Ohio's filing updates to its EE/PDR riders, for rider effective dates from March 2009 through May 2013. Based on Staff's review, it appears that the Company has followed all applicable Commission directives in its calculation of the EE/PDR rider rates. This includes compliance with Staff's recommendations regarding the net lost distribution revenues incurred after December 31, 2010. Lost distribution revenue for both operating companies have been excluded from the final 2009-2011 rider true-up amount, which comprises a part of the latest comprehensive updates proposed for the rider rates. The latest updates to the rider rates also include costs associated with the IRP-D, which the Commission found as reasonable in being recovered under the EE/PDR rider.

Staff finds that the procedure followed by AEP Ohio in calculating the comprehensive updates to its EE/PDR rider rates is consistent with the 2009 portfolio approvals and 2012 portfolio approvals, as well as the Commission's approvals in other cases relevant to the EE/PDR riders. However, the actual costs and the justification of their inclusion in the rider for cost recovery are beyond the scope of the Staff's review. Because of this, and because of the significance of the EE/PDR riders as a part of the Company's rates, Staff recommends that procedures be established to conduct financial audits of the Company's EE/PDR riders.

Staff Review and Recommendation (June 5, 2014) at 9 (Emphasis added).

A financial audit is limited to an accounting review and confirmation of the costs being incurred and accounted for, as well as a confirmation that the rider rate calculated and allocated costs properly for recovery from retail customers. While the financial audit process remains

pending, the Company continues to recover its incurred costs. If a financial recommendation is ultimately approved by the Commission, a subsequent adjustment is made to the costs incurred during the audit period under review. AEP Ohio anticipates that the financial audit of the EE/PDR rider would operate similarly, and the Commission can clarify this point if it feels it is necessary to do so.

While AEP Ohio may challenge the appropriateness of a financial recommendation, it is committed to ensuring that customers pay no more than the actual costs incurred for the EE/PDR programs – this commitment is evidenced by AEP Ohio’s recent identification and subsequent correction of a miscalculation in the proposed rider rate. Contrary to OCC’s argument, the possibility that a financial audit of the EE/PDR rider may result in an adjustment does not make the rates approved in the Order unjust, unreasonable or unlawful. It is unnecessary to hold the approved rates in abeyance until the completion of the financial audit because any approved financial recommendation resulting from the audit can be addressed through an adjustment that will be reflected in subsequent EE/PDR rider rates. The EE/PDR rider rates are being collected subject to reconciliation based on the outcome of the financial audit. OCC’s rehearing request on this issue should be denied.

OCC next argues that the Order should have at least approved the updated EE/PDR rates subject to refund. Here again OCC seeks to restrict AEP Ohio’s recovery of actual costs incurred on the chance that a financial audit could result in a subsequent adjustment to the costs recovered under the rider. As discussed above, the fact that such a possibility exists does not make the rates approved in the Order unjust or unreasonable. Further, OCC’s support for its contention that the EE/PDR rider rates should be approved subject to refund is misplaced. And the concept of a rate being subject to refund generally is a broader concept than being subject to

reconciliation based on a financial audit. Specifically, in both cases cited by OCC (OCC AFR at 6) rates were being established in the context of a base rate proceeding, where the rates established would remain in place until the next base rate proceeding – which would occur at the earliest three years later under the current SSO approval cycle. By contrast, the rates charged under AEP Ohio’s EE/PDR rider are reviewed every year. Annual review of the rates charged under the rider, as well as the additional review through a financial audit of the actual costs incurred, ensures that the EE/PDR rates can be frequently adjusted to recover only actual costs incurred. The fact that AEP Ohio’s EE/PDR rider rates are updated annually and subject to reconciliation through a financial audit nullifies any concern that customers would pay more than the actual costs incurred for the EE/PDR programs. Thus, approving the rates subject to refund is unnecessary, and OCC’s second ground for rehearing should be denied.

Finally, OCC’s third argument for rehearing of the Order is premature. OCC argues that the Order failed to specify that the financial audit of the rider should include verification of the methodology for calculating and amount of shared savings (OCC AFR at 7). But the parameters and process of the financial audit will likely be addressed in the subsequent entry. Therefore, OCC’s third basis for rehearing is premature and should be denied accordingly.

III. CONCLUSION

Contrary to OCC’s contention, it was not unjust, unreasonable or unlawful for the Order to approve the updated rates prior to the completion of the financial audit. The possibility that a financial audit may result in a future adjustment to costs recovered through the rider does not make the rates approved in the Order unjust, unreasonable or unlawful. Ordering that the rates be subject to refund is likewise unnecessary because annual review of the EE/PDR rider, as well

as the additional review through a financial audit, ensures that the Company is appropriately recovering only the actual costs incurred. Finally, OCC's attempt to dictate how the Commission handles its dockets should be rejected. The Order indicates that a subsequent entry will set forth the parameters of the forthcoming financial audit; OCC's request to include such detail in the Order should be denied. In substance, the Order properly found that the EE/PDR rates proposed by AEP Ohio were not unjust or unreasonable and should be approved. This finding should not be disturbed on rehearing. The Commission should find that each of OCCs grounds for rehearing should be denied.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing was served on the persons stated below via electronic mail on this 11th day of August, 2014.

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Summary: Memorandum Contra electronically filed by Mr. Yazen Alami on behalf of Ohio Power Company