



Need to Know: American Electric Power's electric security plan

Updated March 2009

With a new electric energy law signed by Gov. Ted Strickland in 2008, Ohio's investor-owned electric utilities have been required to submit new plans for the way they charge consumers for the electricity they use.

In compliance with the new law, American Electric Power filed its plan July 31, 2008, at the Public Utilities Commission of Ohio (PUCO) for new electric rates, called an electric security plan. The Office of the Ohio Consumers' Counsel (OCC) spent several weeks analyzing the utility's proposal and suggested several changes to best protect residential consumers. The OCC presented its case to have more than \$1 billion in unnecessary charges removed from the case including non-fuel generation costs, distribution reliability increases, the provider of last resort charge, deferrals and interest charges and re-evaluation of fuel costs.

On March 18, 2009, the PUCO decided the AEP electric security plan. The PUCO limited the yearly total bill increases in both of AEP's Ohio territories but allowed the utility to delay costs with interest into the future. Columbus Southern Power customers' rates will be capped at 7 percent in 2009, 6 percent in 2010 and 6 percent in 2011. Ohio Power customers' rates will be capped at 8 percent in 2009, 7 percent in 2010 and 8 percent in 2011. AEP's original proposal would have increased generation rates by 15 percent each year of the electric security plan plus additional charges that would have made bills go even higher.

Other elements of the PUCO decision included:

- **Low-income assistance** – AEP will provide a minimum of \$15 million in shareholder funds for low-income programs during the next three years. The utility had originally offered \$75 million to fund economic development and

low-income programs;

- **Energy efficiency** – AEP will develop energy efficiency programs to help consumers conserve electricity. These programs will cost all customers \$178 million during the three-year electric security plan;



- **Smart grid improvements** – AEP will be allowed to charge customers \$54.5 million for smart grid improvements – half of what it asked to collect. The PUCO directed AEP to apply for matching funds from the American Recovery and Reinvestment Act of 2009;

- **Provider of last resort charge** – The PUCO allowed AEP to recover 90 percent of its proposal for this charge, costing customers \$153 million annually. The provider of last resort charge is an estimated financial risk to provide electricity to customers who shop for alternative suppliers. The OCC contended that AEP

is only required to buy power at market rates when it is needed and does not need to have on-hand power for returning customers;

- **Deferrals and interest charges** – Any costs incurred by AEP above the capped percentage increase will be collected at an interest rate of approximately 11.15 percent from 2012-2018. The OCC has estimated that this could cost customers more than \$900 million through 2018;
- **Increased vegetation management** – AEP was granted \$104.5 million for increased tree trimming and other vegetation management. The PUCO denied the rest of AEP's \$449 million request for distribution rate increases at this time;

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- **Denial of other proposed costs** – The PUCO denied AEP’s request to collect more than \$1.6 billion in costs related to market power contracts, non-fuel generation costs and early plant closure costs; and
- **Retroactive rate collection** – AEP will be allowed to collect all new charges under its electric security plan retroactive to Jan. 1, 2009. The OCC believes this to be unlawful.

This electric security plan will last three years through 2011. There are elements of the plan that will require annual review and the OCC will take advantage of these review periods to ensure the costs AEP is charging customers are prudent.

American Electric Power will have to submit another proposal nine months before its existing plan expires. At that time, the OCC will again review the new utility plan to ensure that any rate adjustments that come out of the proposal are fair for residential consumers.

For additional information from the Office of the Ohio Consumers’ Counsel:

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