BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company and Related Matters.	))))	Case No. 11-5906-EL-FAC
In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company.	)))	Case No. 12-3133-EL-FAC
In the Matter of the Fuel Adjustment Clauses for Ohio Power Company.	))	Case No. 13-572-EL-FAC
In the Matter of the Fuel Adjustment Clauses for Ohio Power Company.	))	Case No. 13-1286-EL-FAC
In the Matter of the Fuel Adjustment Clauses for Ohio Power Company.	))	Case No. 13-1892-EL-FAC

ENTRY

The Commission finds:

(1) By opinion and order issued on August 8, 2012, the Commission modified and approved an application for an electric security plan (ESP) filed by Ohio Power Company d/b/a AEP Ohio (AEP Ohio), in *In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan,* Case No. 11-346-EL-SSO, et al. Among other provisions of the ESP, the Commission approved a fuel adjustment clause (FAC) mechanism under which AEP Ohio is intended to recover prudently incurred fuel and fuel-related costs. In addition, a new alternative energy rider was established to enable AEP Ohio to recover alternative energy costs, which were previously recovered through the FAC. Annual audits are to be performed of AEP Ohio's fuel costs, fuel management practices, and alternative energy costs.

(2) To assist the Commission with the annual audit of AEP Ohio's fuel and alternative energy costs, the Commission directs the

Commission staff (Staff) to issue the request for proposal (RFP) attached to this entry, in order to acquire audit services for the 2012, 2013, and 2014 audit periods.

(3) All proposals submitted pursuant to the RFP are due by November 19, 2013. In order to demonstrate the ability to perform the services required in the RFP, the proposal must show, in detail, the auditor's understanding of the project and the work required. Each proposal must address, with specificity, how the auditor will handle all of the issues in the RFP. The auditor must demonstrate that it will be able to perform the required services, showing its clear understanding of the tasks to be completed, the experience and qualifications of the personnel who will perform the work, and the anticipated breakdown of costs and timing. The selection criteria to be used by the Commission to determine the selection of the auditor shall be the technical and management capabilities of each firm, as well as the overall cost of each bid. The Commission intends to select the auditor by December 4, 2013.

(4) AEP Ohio shall directly contract with, and bear the cost of, the auditor chosen by the Commission for the services solicited in the RFP.

(5) The Commission shall select and solely direct the work of the auditor. Staff will review and approve payment invoices submitted by the auditor.

(6) The auditor shall perform its audit and investigation as an independent contractor. Any conclusions, results, or recommendations formulated by the auditor may be examined by any participant to this proceeding. Further, it shall be understood that the Commission and/or Staff shall not be liable for any acts committed by the auditor or its agents in the preparation and presentation of the report.

(7) The auditor shall execute its duties pursuant to the Commission's statutory authority to investigate and acquire records, contracts, reports, and other documentation under Sections 4903.02, 4903.03, 4905.06, 4905.15, and 4905.16, Revised Code. The auditor is subject to the Commission's statutory duty under Section 4901.16, Revised Code, which states:

> Except in his report to the public utilities commission or when called on to testify in any court or proceeding of the public utilities commission, no employee or agent referred to in Section 4905.13 of the Revised Code shall divulge any information acquired by him in respect to the transaction, property, or business of any public utility, while acting or claiming to act as such employee or agent. Whoever violates this section shall be disqualified from acting as agent, or acting in any other capacity under the appointment or employment of the commission.

(8) Once disclosure is permitted by Section 4901.16, Revised Code, the following process applies to the release of any document or information marked as confidential. Three days' prior notice of intent to disclose shall be provided to the party claiming confidentiality. Three days after such notice, Staff or the auditor may disclose or otherwise make use of such documents or information for any lawful purpose, unless the Commission receives a request for a protective order pertaining to such documents or information within the three-day notice period. The three-day notice period will be computed according to Rule 4901-1-07, Ohio Administrative Code.

(9) Upon request of the auditor or Staff, AEP Ohio shall provide any and all documents or information requested. AEP Ohio may conspicuously mark such documents or information "confidential," if AEP Ohio believes the documents or information should be deemed as such. In no event, however, shall AEP Ohio refuse or delay in providing such documents or information.

It is, therefore,

ORDERED, That Staff issue the RFP attached to this entry and that November 19, 2013, be set as the due date for proposals in response to the RFP. It is, further,

ORDERED, That, in accordance with finding (4), AEP Ohio bear the cost of the audit services of the contractor chosen by the Commission. It is, further,

ORDERED, That AEP Ohio and the contractor shall observe the requirements set forth herein. It is, further,

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

THE PUBLIC UTILITIES COMMISSION OF OHIO

Todd A. Snitchler, Chairman

Steven D. Lesser

Lynn Slaby

M. Beth Trombold

Asim Z. Haque

HW/jd

Entered in the Journal

OCT 23 2013

Barcy F. McNeal

Barcy F. McNeal
Secretary

REQUEST FOR PROPOSAL NO. U13-FPP/AER-1

A MANAGEMENT/PERFORMANCE AND FINANCIAL AUDIT
OF THE FUEL AND PURCHASED POWER
RIDER AND THE ALTERNATIVE ENERGY RIDER OF
OHIO POWER COMPANY

Issued by:
THE
PUBLIC UTILITIES COMMISSION OF OHIO
180 East Broad Street
Columbus, Ohio
43215-3793

PROPOSAL DUE: NOVEMBER 19, 2013

Ohio | Public Utilities Commission

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I. INTRODUCTION

Ohio's electric law, Senate Bill 221, requires electric utilities to provide consumers with a standard service offer, consisting of either a market rate offer (MRO) or an electric security plan (ESP), Section 4928.142, Revised Code. On March 18, 2009, the Commission approved an Electric Security Plan (ESP 1) for Ohio Power (OP) and Columbus Southern Power (CSP) in Case No. 08-917-EL-SSO et al. ESP 1, which was to end December 31, 2011, included a fuel adjustment clause (FAC) for each company which recovered prudently incurred fuel and purchased power costs used to serve standard service offer (SSO) customers. The FAC also recovered costs related to the alternative energy requirements of OP and CSP, as required pursuant to Sections 4928.64 and 4928.65, Revised Code. On December 31, 2011, CSP merged into OP, with OP being the surviving entity. OP's second Electric Security Plan (ESP 2) was approved on December 14, 2011 in Case No. 11-346-EL-SSO with an effective date of January 1, 2012. The Order in that proceeding authorized separate rate zones for former CSP and OP customers, but established a uniform FAC rate. In addition, a new alternative energy rider (AER) was established to recover alternative energy costs which were previously recovered through the FAC. In its Entry on Rehearing issued February 23, 2012, the Commission reversed its approval of ESP 2. OP subsequently filed a modified ESP 2 application which was approved by the Commission on August 8, 2012, with modification. The Commission required the FAC to continue on an unmerged basis and that an AER be implemented for each company. In addition, the Commission determined that AEP should transition to a competitive retail marketplace for generation service via a series of auctions. The initial auction would be a 10% energy-only auction. On June 1, 2014, 60% of AEP Ohio's SSO energy load would be provided via energy auction, and beginning January 1, 2015, 100% of Ohio Power's SSO energy requirements would be supplied via auction. Accordingly, the FAC would terminate on December 31, 2014.

This Request for Proposal seeks audit services to address the management performance and financial aspects of the FAC and AER recovery mechanisms for the years 2012, 2013, and 2014. In addition, a review of the final reconciliation and true-up of the FAC would be required following its termination. Your firm is invited to submit a proposal to perform these audits.

II. THE PROJECT

A. MANAGEMENT/PERFORMANCE AND FINANCIAL AUDIT

In accordance with the Opinion and Order in Case No. 11-346-EL-SSO et al., this Request for Proposal is for two audits of the FAC and AER. The first audit (AUDIT 1) will cover the years 2012 and 2013. Though AUDIT 1 covers two years, each year's results must be evaluated and displayed independently for both the FAC and the AER. The second audit (AUDIT 2) will include review of 2014 for each rider as well as a review of the final reconciliation and true-up following its termination on December 31, 2014.

As it pertains to the FAC, the audit will address the management performance and financial aspects of the recovery mechanisms. Guidance for the standard of work to be performed and the requirements of the audit report can be found previous Appendix D and E to Chapter 4901:1-11, Ohio Administrative Code (see Attachments 1 and 2). The selected auditor will be required to conduct such audit and will be responsible for submitting a report that is based upon the guidelines in Section L of Appendix D and Section M of Appendix E to former Chapter 4901:1-11, Ohio Administrative Code.

As it pertains to the AER, guidance for the standard of work to be performed and the requirements of the audit report can be found in Attachments 3 and 4 to this RFP. The initial audit will include the actual cost for the AER for 2012 and 2013. The selected auditor will be required to conduct such audit and will be responsible for submitting a report that is based upon the guidelines in Attachments 3 and 4 to this RFP. At the discretion of the Commission, the firm selected to perform the initial audit will also perform a second audit as more fully detailed below. Your firm is invited to submit a proposal to perform these audits.

B. ROLE OF AUDITOR

Any auditor who is chosen by the Commission to perform an audit expressly agrees to perform his or her audit as an independent contractor. Any conclusions, results, or recommendations formulated by the auditor may be examined by any participant to the proceeding for which the audit report was generated. Further, it shall be understood that the Commission and/or its Staff shall not be liable for any acts committed by the auditor or their agents in the preparation and presentation of the audit reports.

C. PUCO STAFF SUPERVISION

The PUCO Staff will oversee the project. Staff personnel shall be informed of all correspondence between the auditor and the Company, and shall be given at least three working days' notice of all meetings and interviews with the Company, so as to allow Staff the opportunity to attend.

D. COST OF AUDIT AND QUOTATION OF CHARGES

The auditor shall include separate cost estimates in its proposal for AUDIT 1 and AUDIT 2, respectively. Such cost estimates shall be viewed as maximum costs for purposes of evaluating and selecting an auditor. The proposed cost is to include all expenses associated with conducting the audit and presenting the findings and recommendations in the audit report. A detailed presentation of costs shall be provided, broken down by phase/task, in conformance with part VI, paragraph J, of this RFP. A separate presentation of proposed costs for each of the audits, AUDIT 1 and AUDIT 2, is required. The proposed costs shall be considered firm prices for performing the work described in the proposal.

E. COST OF PREPARING AND PRESENTING EXPERT TESTIMONY

For each audit, the actual costs associated with preparing and presenting expert testimony before the Commission during the applicable hearing will include time and materials not to exceed $14,000 without Commission Staff approval. Expenses include the following:

- actual hours spent preparing for, and assisting Staff with, settlement negotiations
- actual time preparing testimony, up to 20 hours per witness
- actual transportation expense (i.e., airfare, etc.)
- actual living expenses (hotels, meals, local transportation)
- actual hours spent in travel
- actual hours spent presenting testimony

F. TWO AUDIT CYCLE

The Commission has initiated a two audit cycle for the FAC and AER riders. A complete and thorough audit will be conducted in each phase of the audit cycle. However, in conducting the second audit, the auditor may rely upon the first audit's investigations and results, but only to the extent the information relied upon has not changed in the intervening period.

The Commission intends that the auditor selected for the first audit will also conduct the second audit. However, the auditor must understand that changes in the regulatory environment, performance in the first audit, or factors beyond the control of the auditor or Commission could result in the Commission rescinding the second audit award.

The auditor, when preparing a proposal, should not assume participation in all phases of the audit cycle. Cost estimates should be developed accordingly.

III. SCOPE OF WORK

A. STANDARDIZED WORK REQUIREMENTS

No specific statutory or administrative requirements exist for auditing fuel, purchased power, and alternative energy costs in Ohio. However, for the FAC, general guidance on the standard work to be performed and the requirements of the audit report can be obtained in the previous Appendix D and Appendix E to Chapter 4901:1-11, O.A.C. (see Attachments 1 and 2 to this RFP, which are based on the audit Appendices). As it regards the AER, guidance on the standard work to be performed is shown on Attachments 3 and 4. Please note that these audit programs establish minimum criteria for the audit review. They should not be used to the exclusion of the auditor's initiative, imagination, and thoroughness in performing the audits.

The designated auditor will be expected to analyze, interpret, and make specific recommendations with respect to the structure, policies, and procedures of the Company's fuel procurement, fuel utilization, power purchases, and related functions, and the Company's AEPS compliance activities.

B. SPECIFIC WORK REQUIREMENTS

1. FUEL ADJUSTMENT CLAUSE

a. COAL PRICES

The auditor shall include in the investigations a market price comparison to be used as a tool to evaluate the reasonableness of the prices paid by the Company for coal purchased during the audit period.

b. ENVIRONMENTAL COMPLIANCE

The auditor shall include in the investigation a review of the Company's environmental compliance activities, as they relate to fuel procurement and utilization. This review should include considerations such as (1) compliance with existing environmental regulations, and (2) preparation for compliance with any proposed or newly enacted environmental regulations.

The auditor shall analyze and address <u>at least</u> the following environmental compliance-related issues:

- the impact that compliance activities had on the Company's fuel procurement strategy, as well as the type and cost of fuel that was actually purchased;

- overall emission allowance management strategy, including any emission allowance transactions in which the Company participated; and
- methods used to analyze compliance options and develop overall mitigation strategies.

c. POWER PLANT PERFORMANCE

The auditor shall review and report on significant plant outages or other declines in the operating availability, equivalent availability, or capacity factors of major generating plants and their impact on ratepayers in the form of higher fuel or purchased power costs, and either make a recommendation to the Commission that further review is needed or undertake its own review to determine the reasonableness of the Company's action.

In addition, the auditor shall conduct an on-site investigation of at least one of the Company's generating stations and report the resultant findings, conclusions, and recommendations. Items to be covered during the station visitation include, but are not limited to, the following: fuel handling and quality control (i.e., weighing, sampling, scale calibrations, etc.), inventory surveying methodologies and results, performance monitoring (i.e., heat rate), and maintenance.

d. UTILITY INDUSTRY PERSPECTIVE

The auditor shall include in the audit report a discussion of the current dynamics of the industry in which the Company operates, and the impact that this has on the Company's practices regarding fuel procurement, fuel utilization, and power purchases.

2. ALTERNATIVE ENERGY RIDER

a. RENEWABLE ENERGY CREDIT (REC) AND SOLAR RENEWABLE ENERGY CREDIT (S-REC) PRICES

The auditor shall include in the investigations a market price comparison to be used as a tool to evaluate the reasonableness of the prices paid by the Company for RECs and S-RECs during the audit period.

b. ALTERNATIVE ENERGY PORTFOLIO STANDARD (AEPS) COMPLIANCE

The auditor shall include in the investigation a review of the Company's compliance activities as they relate to REC and S-REC procurement and utilization. This review should include considerations such as (1) compliance with current obligations, and (2) preparation for compliance with projected future obligations under the AEPS.

The auditor shall analyze and address, at least, the following AEPS compliance-related issues:

- overall REC and S-REC management strategy, including any REC or S-REC transactions in which the Company participated;
- methods used by the Company to analyze AEPS compliance options and develop overall mitigation strategies; and
- the Company's status relative to the 3% provision contained within Section 4928.64(C)(3), Revised Code.

c. UTILITY INDUSTRY PERSPECTIVE

The auditor shall include in the audit report a discussion of the current dynamics of the industry in which the Company operates, and the impact that this has on the Company's practices regarding REC and S-REC procurement, sale, and generation.

IV. TIMELINE

The timeline presented below for AUDIT 1 is intended to provide the auditor an understanding of the timeframe during which the audit is to be conducted. Although precise dates are used below, the actual dates for awarding the audit and for conducting audit and hearing activities may vary somewhat when they are set through a subsequent Commission entry.

Audit proposals due	November 19, 2013
Award audit (Commission entry)	December 4, 2013
Audit conducted	January - March 2014
Company has the necessary information and personnel available for the auditor to begin the audit process	Beginning January 2, 2014
Draft audit report presented to Staff and the Company	April 2, 2014
Final audit report filed with Commission	April 18, 2014

The timeline for AUDIT 2 will be set by the Commission at a future date.

V. DEADLINES AND DELIVERABLES

A. AVAILABILITY OF DOCUMENTS

Upon request of the auditor or Staff, the Company shall provide any and all documents or information requested. The Company may conspicuously mark such documents or information as being "confidential." In no event, however, shall the Company refuse or delay to provide such documents or information.

Staff or the auditor shall not publicly disclose any document marked "confidential" by the Company, except upon three days' prior notice of intent to disclose served upon the Company's counsel. Three days after such notice, Staff or the auditor may disclose or otherwise make use of such documents or information for any purpose, unless the Company moves the Commission for a protective order pertaining to such documents or information within the three-day notice period.

The three-day notice period will be computed according to Section 4901-1-07, O.A.C. Service shall be complete upon mailing or delivery in person.

The Company shall diligently review the draft audit report for the presence of information deemed to be confidential, and shall work with the auditor to assure that such information is treated appropriately in the report.

B. FISCAL REPORTS

The auditor will submit invoices when work is 50% complete and when work is 100% complete. The invoices shall include details regarding the dates and activities covered by each invoice, and shall be sufficiently detailed to allow Staff to identify the work completed, the personnel involved, and the corresponding charges in relation to the activity schedule originally set forth in the auditor's proposal. All invoices are to be sent to the Company, with a copy sent to the Commission Staff. After approval of the invoice by the Commission Staff, the Company will be authorized to make payment.

The Company shall be ordered by the Commission to enter into a contract, which shall incorporate by reference all provisions of this proposal, with the auditor chosen by the Commission to perform the audit. Auditors will submit a copy of the contract agreement between the auditor and Company to the Staff member assigned to the audit.

C. INTERIM REPORTING

At the midpoint of the audit activities, the auditor will provide a progress report to Staff. This report will briefly describe progress made on required audit activities, as well as initial/tentative findings and conclusions on issues investigated to date. The report may be made verbally, unless Staff requests a written report.

D. DRAFT REPORT

Four (4) copies of a draft of the final report shall be sent to both the Commission Staff and to the Company, to be received by the date specified in Section IV. This report may be submitted electronically to the Commission Staff and the Company unless either specifies a preference for hard copies.

E. FINAL REPORT

Six copies of the final report plus two reproducible originals will be delivered to the Commission by the morning of the date specified in Section IV. The final report should include an executive summary of recommendations. Along with the paper copies of the audit report, the auditor shall submit to Staff an electronic copy of the final report.

In addition, on the morning that the final report is due, the auditor shall provide the Company with five copies of the final audit report. This will provide the Company a final opportunity to review the audit report prior to its filing by Staff.

If it is necessary to prepare a redacted report, due to confidentiality concerns, six copies of a non-redacted report shall also be provided to both the Commission and the Company on the report due date. The non-redacted report shall clearly be labeled "confidential."

F. WORKING PAPERS

A complete set of working papers is an integral part of the audit requirements. With the final report, the auditor shall deliver to the Commission Staff one complete set of working papers, indexed and in orderly form, which contains documents used and procedures followed to develop the conclusions set forth in the audit report. Voluminous documents may be included only as references in the working papers, upon Staff's agreement. Confidential documents should be clearly marked and provided in a separate section of the working papers.

G. PRODUCTION OF DOCUMENTS

Upon request of the Commission or its Staff at any time, the auditor shall immediately produce any document or information obtained or produced within the scope of the audit.

H. TESTIMONY

The auditor shall present expert testimony during the course of any hearing at which the audit report is considered. The individual providing testimony will be one who conducted or directed the audit activities being considered at any hearing.

VI. MINIMUM CONTENTS OF PROPOSAL

Each proposal shall contain page numbers and a Table of Contents. In a separate section, reflected in the Table of Contents, the following information shall be provided:

A. Name, mailing address, and telephone number of individual to contact if further information is desired.

B. An indication of how the bidder plans to incorporate the Staff's participation in the proposed work plan.

C. The name(s) of all subcontractors to be used in the performance of the proposed work, identification of the specific items to be performed/provided by the subcontractor, and the cost of the proposed subcontractor's work; or if no subcontractors are to be used, the entry "Subcontractor – none". (All such subcontractors indicated in the proposal will be acknowledged as accepted by the Commission upon selection of the proposal for contract awarded unless the auditor is previously notified of the contrary. No addition, deletion, or substitution of subcontractors will be permitted during the course of the contract unless approved in advance by the Commission Staff in writing.) If subcontractors are proposed, all information required in this section shall be supplied for each subcontractor proposed. Such information shall be supplied in format parallel to the overall format specified for the contractor.

D. The following required Equal Employment Opportunity data must be provided for the auditor and each subcontractor:

1. The total number of employees;

2. The percentage of the total which are women;

3. The percentage of the total which are Black, Hispanic, Asian, or American Indian (please specify);

4. The total number of employees located in Ohio offices;

5. The percentage of the Ohio total which are women;

6. The percentage of the Ohio total which are Black, Hispanic, Asian, or American Indian (please specify);

7. The number of individuals to be assigned to the project;
8. The percentage of the total assigned which are women; and

9. The percentage of the total assigned which are Black, Hispanic, Asian, or American Indian (please specify);

E. A listing of contracts the auditor and each subcontractor has with the State of Ohio and:

1. Name of the state agency(s) for each contract;

2. The cost of each contract;

3. The duration of each contract; and

4. A brief description of each current contract.

F. A listing of the auditor's and each subcontractor's clients which may have a financial interest in the Company, or its affiliates. Auditors maintaining any present or on-going contracts or agreements with the Company and affiliates may, at the discretion of the Commission, be disqualified by reason of possible conflict of interest. In the proposal, such contracts should be described in sufficient detail that the Commission can determine whether a conflict of interest exists. A response indicating that this information will be provided on request or that such contracts are too numerous to enumerate will be cause for disqualification of the auditor.

G. A listing of all the auditor's and each subcontractor's offices, facilities, and equipment to be used in performance under this contract and their locations including a specification of offices, facilities, and equipment located in Ohio. If none, state – none.

H. A statement of financial responsibility including certification that the auditor, joint partners if the auditor is a conglomerate operation, and any subcontractors have no outstanding liens or claims against them.

I. References the Commission or its Staff may call to receive an assessment of the auditor's and each subcontractor's previous performance. References should be provided for the Company or companies proposing and for the individuals designated as principals for the project. The information required for each reference is as follows:

- Name of individual to contact for reference;
- Company / Facility which employed the individual;
- Telephone number;
- Whether reference is for the Company or a principal; and
- Project or work for which the reference is given.

J. A description of the proposed scope of work to be performed, including a work plan, expected deliverable products, and task timing. In a separately numbered section, the auditor will provide a detailed cost breakdown by phase/task of the work plan including the class of personnel performing each phase/task of the work, the hourly rate charged for each class, the number of hours charged for each class, an equivalent breakdown of all subcontracted work, any direct or indirect cost items which the auditor plans to charge, and the total cost.

The maximum contract price quoted by the auditor shall include all items of work defined in the proposal. The auditor will be expected to deliver the performance described in its proposal within the agreed price.

K. Identification, by name, of the lead personnel to be employed, the extent of their involvement in the project, and a description of how the proposed personnel's experience matches project requirements. Contract terms will not permit substitution of lead personnel without prior written approval of the Commission. Identification of lead personnel in the cost proposal will not constitute satisfactory compliance with this requirement.

L. A description of the qualifications, experience, and proven results achieved by all professional lead or significant personnel to be employed on the project, with a summary of work performed on projects similar to the one contemplated by this RFP including specific references. The Commission reserves the right to request samples or prior relevant work from any auditor prior to making its final consultant selection.

M. Identification by name and title, and the hourly rate of pay and all other related costs, of the individual or individuals who will present expert testimony before the Commission during the appropriate hearing.

VII. REVIEW CRITERIA

An approximate weighting system, along with the Commission's judgment and experience, will be used in the evaluation of the proposals. The approximate weighting applied to proposal components may be as follows: 50% experience and qualifications, 25% project understanding, and 25% other criteria (including, but not limited to, costs and timing). Proposals will be evaluated on a basis which includes the following criteria:

A. COMPLIANCE WITH MINIMUM CONTENTS REQUIREMENTS

Lack of satisfactory response to the Minimum Contents Requirements will be grounds for elimination of any proposal from further consideration.

B. COST

The total proposed contract price as specified in the Proposal. A breakout of costs among AUDIT 1 and AUDIT 2 is required. Auditors are encouraged to provide as competitive a bid as is practicable.

C. UNDERSTANDING OF PROJECT

Proposer has grasped the intent of the project, is knowledgeable of the technical aspects required, indicates understanding of potential problems, demonstrates understanding of regulatory issues, trends, and perspectives, and the work plan indicates appropriate phasing. The proposer has indicated its method of handling the project, has reflected thorough understanding of the project requirements, the methods for handling the project appear realistic under stated time constraints, and the proposer's innovative methodologies appear appropriate to the project. The proposal is responsive to the RFP.

D. EXPERIENCE OF PERSONNEL ASSIGNED TO PROJECT AND RELATED ORGANIZATIONAL EXPERIENCE

Relevant experience in field; qualified to undertake assignment. References of previous clients/projects provided.

E. TIMELINES

Demonstrated ability to meet stated deadline; realistic timelines provided and demonstrated proven results of lead personnel.

VIII. OTHER PROPOSAL CRITERIA

A. RELEVANCE

The auditor shall include only relevant information and pertinent exhibits in the proposal. Duplication of materials provided in the RFP, exhaustive resumes, inclusion of standard company promotional materials, etc., will not garner additional points in the evaluation process and may detract from the clarity and conciseness of the proposal.

B. PROPRIETARY DATA IN PROPOSAL

Submissions to the Commission become public documents available to open inspection. Proprietary data in a proposal will also assume this stature. Therefore, discretionary action is recommended for any proprietary data to be submitted in proposals.

C. DUE DATE AND SUBMITTAL ADDRESS

Any proposal submitted hereunder must be received at the following address no later than 5:00 p.m., November 19, 2013. The proposal should be sent in a sealed envelope, clearly marked and addressed to:

Victor Gallina
Response to RFP No. U13-FPP/AER-1
The Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215-3793

Note: By responding to this request for proposal, the proposer expressly accepts and is bound by all the terms thereof including all attachments, exhibits, and schedules.

D. COPIES

Ten copies of the proposal are to be submitted to the Commission.

E. CONTRACTOR REQUIREMENTS AND MINORITY PARTICIPATION

The Commission, in awarding the contract, will give preference to Ohio contractors. Ohio contractors include not only established domestic companies actively doing business in Ohio but also encompass multi-state companies with headquarters out of Ohio but with substantial commitments of offices, division, and facilities within the state. The Commission will give preference to proposers demonstrating compliance with minority and women EEO criteria.

F. LATE PROPOSALS

A proposal is late if received at any time after the due date set for receipt of the proposals. A late proposal will be considered along with other proposals only if it is received before the evaluation of proposals has substantially progressed and, in the sole opinion of the Commission, only if one of the three following conditions is the cause for such late receipt:

1. Mail delay – the lateness is due solely to a delay in the mail when the response has been sent by registered or certified mail for which an official, dated postmark on the original receipt has been obtained.

2. Commission error – if it is received by any reasonable means at the Commission in sufficient time to be delivered at the office designated for delivery and would have been received at such office except for delay due to mishandling at the Commission. Only an appropriate date or time stamp showing the time of the receipt will be accepted as evidence of timely receipt of the proposal.

3. Exceptions – Any other late proposal will not be considered, unless it is the only proposal received or in the sole judgment of the Commission it offers some important technical or scientific advantage that is of benefit to the Commission.

G. MODIFICATION OR WITHDRAWAL OF PROPOSAL

Any proposal may be modified or withdrawn by written request of the auditor if the request is received by the Commission at the above address by the date set for receipt of original proposals.

H. MODIFICATION OR WITHDRAWAL OF THIS RFP

This Request for Proposal may be modified or withdrawn at any time prior to the time set for receipt of proposals and thereafter, as long as no proposal has been opened. Upon any such modification or withdrawal, all auditors will be notified and any person or firm who has expressly requested such notice in writing will also be notified of such changes at the discretion of the Commission.

I. RIGHT TO REJECT ANY AND ALL PROPOSALS

The Commission reserves the right, without limitation or discussion with those submitting proposals, to reject any and all proposals.

J. PENALTY FOR DIVULGING INFORMATION

The auditor shall abide by all provisions of Section 4901.16, Ohio Revised Code which states: "Except in his report to the public utilities commission or when called on to testify in any court or proceeding of the public utilities commission, no employee or agent referred to in Section 4905.13 of the Revised Code shall divulge any information acquired by him in respect to the transaction, property, or business of any public utility, while acting or claiming to act as such employee or agent. Whoever violates this section shall be disqualified from acting as agent, or acting in any other capacity under the appointment or employment of the commission."

The auditor shall not divulge any information regarding its audit activities to the media or to any other entity, except in its report and testimony before the Commission, before, during, and/or after the audit. All comments or concerns that the auditor wants to address shall be directed to the Commission's Media Office.

K. RFP WEBSITE

All firms wishing to remain on the Commission's bidder list must subscribe to the Commission's RFP list by clicking on the "RFP – Requests for Proposals" link at:

http://www.puco.ohio.gov/PUCO/Docketing

Pending RFPs and further information will be posted at the above website.

L. STATUTORY SCOPE OF AUDIT

Any auditor who is chosen by the Commission or the Company to perform an audit shall execute its duties pursuant to the Commission's statutory authority to investigate and acquire records, contracts, reports, and other documentation under Sections 4903.02, 4903.03, 4905.06, 4905.15 and 4905.16, Revised Code.

M. AUDITOR SELECTION

The Commission reserves the right to determine that the described audit will not be conducted or will be conducted by the Commission Staff, depending on the Commission's needs and circumstances at the time of the selection.

IX. QUESTIONS REGARDING THIS RFP

Administrative questions regarding this RFP should be directed to Hilde Williamson at 614-466-4687. Technical questions should be directed to Victor Gallina at 614-644-7861.

Management/Performance Audit Program Standards

Introduction

Throughout this document, references are made to sections of the Ohio Revised Code and the Ohio Administrative Code that have been repealed. These references are included to illustrate how similar audits were conducted in the past. Some of the requirements of these sections may no longer be applicable in the current market environment. Such references are included here to provide guidance, but appropriate discretion on the part of the auditor will be necessary in order to conduct an audit in conformance with the specific requirements of the Companies' Electric Security Plan (ESP). The following instructions do not provide specific details for auditing every aspect of the Company's FAC activities. It is anticipated that the auditor will ascertain and apply the relevant criteria in review of the Company's decisions and actions related to the procurement of fuel, power, capacity, emission allowances, and environmental reagents.

4901:1-11

Appendix D
Uniform Management/Performance Audit Program
Standards and Specifications for the Electric Fuel Component and Related Matters

(A) Purpose

The purpose of the "Uniform Management/Performance Audit Program Standards and Specifications for the Electric Fuel Component and Related Matters" is to provide uniform standards and specifications as guidelines for an independent auditing firm which conducts an EFC management/performance audit pursuant to former section 4905.66(B)(2) of the Revised Code and former rule 4901:1—11—09 of the Administrative Code. The EFC management/performance audit program is only a guide for the auditor and should not be used to the exclusion of the auditor's initiative, imagination and thoroughness.

(B) Objectives

Unless otherwise ordered by the Commission the objectives of the EFC management/ performance audit program are to:

(1) Ascertain the fuel procurement and emission allowance management policies and practices followed by the company and determine whether such procedures are practical and reasonable;
(2) Ascertain the procedures utilized by the company to assure that lowest reasonable prices at the time of purchase are paid for fuel and purchased power, emission allowances, and environmental reagents;
(3) Determine whether the policies followed by the company assure fuel supplies at reasonable prices;
(4) Evaluate the economic efficiency of the company's fuel procurement and utilization practice; and;

(5) Identify specific areas for improvement of organizational and management practices to ensure operation of the company at the lowest reasonable overall cost.

(C) Audit Standards

The EFC management/performance audit required by section 4905.66(B)(2) of the Revised Code and former rule 4901:1-11-09 of the Administrative Code shall be conducted in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions by the Comptroller General of the United States" (1972, and supplements).

(D) Scope of the EFC Management/Performance Audit

The EFC management/performance audit shall consist of a management/performance audit and a follow-up performance audit:

(1) Management/Performance Audit. The auditor shall conduct a detailed management/ performance audit with respect to at least one area of the company's fuel cost and renewable energy practices. Practices to be considered for the performance audit assessment shall include, but not be limited to:
   (a) Procedures employed to assure the quality of delivered fuel as contracted;
   (b) Policies followed to minimize costs at mines owned by the company;
   (c) Procedures employed to assure that lowest reasonable overall prices are paid for fuel purchased in the spot market;
   (d) Policies followed to assure a fuel supply at reasonable prices;
   (e) Policies followed to assure the most economical purchases of power; and;
   (f) Practices employed to effectively negotiate long-term contracts;

(2) Follow-up practices audit:
   The auditor shall conduct a follow-up performance audit to determine whether the recommendations developed in previous performance audits and determined to be reasonable in an EFC hearing have been effectively implemented by the company.

(E) Minimum Review Requirements

The Commission shall direct the auditor's review into certain of the following areas:

(1) Fuel procurement policies and practices;
(2) The company's long—term fuel supply contracts and amendments to the contracts;
(3) Arrangements with fuel suppliers owned or controlled, in whole or in part, by the company;
(4) Environmental compliance with Title IV of the Clean Air Act Amendments of 1990.
(5) The system dispatcher's policies for power purchases, interchanges, and sales for resale; and
(6) Such other policies and practices as directed by the Commission.

(F) Audit Procedures for Fuel Procurement

The procedures which the auditor shall follow in analyzing the company's fuel procurement practices and policies are:

(1) Review the company's fuel procurement policies, procedures and practices;

(2) Assess the company's organizational ability to procure fuel and provide reliable electric service at lowest reasonable overall cost;

(3) Analyze the fuel purchasing department's formal procedures for purchasing fuel, contract negotiation processes, and fuel contract administration procedures:

- (a) Determine whether the terms of each fuel supply contract contain a price escalation provision;
- (b) Review any contract amendments which contain a price escalation provision and review correspondence on the amendment negotiations;
- (c) Evaluate the delivery performance of the fuel supplier for each long—term fuel supply contract;
- (d) Determine whether the company must buy spot coal at a higher price than that contained in a long—term fuel supply contract if the fuel supplier does not fulfill its obligations;
- (e) If the company jointly owns a generating plant, determine:
  - (1) Which company has responsibility for fuel procurement; and
  - *(2)* How fuel procurement policies are determined;
  - (3) Review with the management of the company whether:
    - (a) Management has set limits for long-term or short-term fuel supply contracts in terms of years or price;
    - (b) The company has a policy which limits the types of transactions it would use to secure long-term fuel supply contracts;
    - (c) The company secures long-term fuel supply contracts by purchasing coal lands, turnkey operations, purchasing a coal company or some other means;
    - (d) Restrictions are placed upon the amount of capital which the company considers appropriate to put up front for such operations;
    - (e) Legal problems relative to the purchase of such operations have been explored;
    - (f) Turnkey operations have been explored and if so, on what basis the company proceeded;
    - (g) Limits result from cash flow problems, capital availability problems or other such factors; and
    - (h) Policy has changed over time due to economic conditions.

(4) Review with the fuel purchasing agent for the company:

- (a) What the agent believes to be the company's primary criteria for coal purchasing;
- (b) What the agent considers to be the most important factors in dealing with coal companies;
- (c) How the agent begins negotiations for a long—term fuel supply contract;
- (d) What areas of responsibility the agent has and what responsibilities supervised;
- (e) How the agent assures that the established criteria are met;
- (f) What checks are run and how the performance and business respectability of coal companies with which the company deals are evaluated;
- (g) How the agent assures that the coal company is giving the best price and that the company is dealing with the coal company in an appropriate business posture;

(h) Whether the agent often deals with the same fuel supply sources;
(i) How the agent obtains current information on coal and the coal industry; and
(j) What ongoing educational programs have been he established.

(G) Audit Procedures for Fuel Supplies Owned or Controlled by the Company

The procedures which the auditor shall follow in reviewing fuel supplies owned or controlled by the company are:

(1) Analyze the fuel purchasing department's formal procedures for purchasing fuel from any fuel supplier which is owned or controlled, in whole or in part, by the company or by a majority of its board of directors in their individual capacities and analyze contract negotiation processes and fuel contract administration procedures;
(2) Obtain and review as necessary copies of all contracts and agreements, including any amendments, between a fuel supplier which is owned or controlled by the company, as described in paragraph (G)(1) of this appendix, and any other company which the company owns or controls;
(3) Obtain monthly financial statements on the fuel supplied during each month of the EFC audit period by each fuel supplier which is owned or controlled by the company and annual financial statements on such fuel for the preceding three years;
(4) Prepare or have the company prepare a comparative operating statement for the same period and discuss any unusual variations in such statement with the appropriate officer of the company;
(5) Determine the basis on which each fuel supplier which is owned or controlled by the company bills the company for fuel;
(6) Compare the cost of fuel purchased during the EFC audit period from each fuel supplier which is owned or controlled by the company with the fuel purchased during the same period by the company under long—term contracts or on the spot market;
(7) Determine the policies and practices followed by each fuel supplier which is owned or controlled by the company to minimize costs and discuss such policies and practices with the appropriate officer of the company and with the manager of the fuel supplier;
(8) Review the audit working papers and reports of the company's internal auditors and certified public accountants regarding each fuel supplier which is owned or controlled by the company;
(9) Review operating statements of each fuel supplier which is owned or controlled by the company, prepare an evaluation of the operation, and determine whether the fuel supplier should be audited;
(10) Inspect, as necessary, any books, contracts, records, documents, and papers of each fuel supplier which is owner or controlled by the company;
(11) Determine whether the acquisition cost of fuel supplied to the company during the EFC audit period represents a sales price or prices for such fuel that has the effect of earning for the fuel supplier a return on actual investment that is fair and reasonable;
(12) Develop for each fuel supplier which is owned or controlled by the company comparisons of the cost per million British thermal units of fuel supplied to the company during the EFC audit period to the cost per million British thermal units for

similar quality coal purchased by the company during the same period from all independent like mining operations under similar term contracts; and

(13) Review the company's procedures for assuring that economic efficiency and long—term security of fuel supply are determinative in developing and operating fuel supplies which are owned or controlled by the company.

(H) Audit Procedures for Environmental Compliance with Title IV of the Clean Air Act Amendments of 1990.

The auditor shall review matters involving the implementation of the company's environmental compliance plan, including:

(1) Review the policies for receiving emissions data from jointly-owned plants;
(2) Review the manner in which CEM results are communicated to those areas responsible for making decisions regarding allowance transactions;
(3) Review the company's policies and procedures as they relate to the following items:
   (a) Utilizing emission allowances to maximize its use of Ohio coal, consistent with least-cost principles;
   (b) Monitoring the emission allowance market;
   (c) Forecasting of emission allowance values;
   (d) Sales and purchases of allowances; and
   (e) Incorporating emission allowances into dispatching and fuel procurement decisions.
(4) Review all allowance transactions in which the company participated during the audit period, as well as foregone transactions.
(5) Such other matters as the Commission or its Staff may direct be investigated or reviewed.

(I) Audit Procedures for Purchased Power and Sales for Resale Policy Evaluation

The procedures which the auditor shall follow in reviewing the company's power purchases and sales for resale policies are:

(1) Obtain a description of the policies followed by the system dispatcher in purchasing power and making sales for resale and determine:
   (a) Whether economic power, including economy energy, is purchased in the most advantageous periods;
   (b) How emergency energy is purchased;
   (c) The basis on which emergency energy sales are priced; and
   (d) Whether the company supplies a proper share of stabilizing power to its interconnected systems;
(2) Review the company's procedures for assuring that economic efficiency is the determinative criteria for power purchases, sales for resale, and fuel utilization; and
(3) Evaluate the company's endeavors to purchase power or generate energy at a fuel cost significantly less than higher priced power under a contract or interconnection agreement.

(J) Audit Procedures for Fuel Utilization

The procedures which the auditor shall follow in reviewing the company's fuel utilization are:

(1) Identify any environmental standards or regulations which significantly affect the economic efficiency of the company's fuel utilization;
(2) Audit procedures for operational efficiency;

(K) The Procedures Which the Auditor Shall Follow in Reviewing the Company's Operational Efficiency are:

(1) Determine whether economic efficiency was the determinative criteria for purchasing fuel supplies;
(2) Analyze the procedures for source data accumulation for calculation of the cost effectiveness measure and efficiency incentive factors for each month of the EFC audit period, including any weighting factors, weighted averages, and estimations used in the calculations; and
(3) Identify any restraints on operational efficiency imposed by environmental regulation, legislation, or operating requirement.

(L) Audit Report

The auditor shall prepare a management/performance audit report to be filed with the commission that shall:

(1) State the scope and objectives utilized in conducting the EFC audit;
(2) State the methodology utilized in conducting the EFC audit;
(3) Objectively present findings, facts and conclusions in a clear and concise manner;
(4) Include only the findings, facts and conclusions which are adequately supported in the audit report or in the auditor's working papers; and may include supporting schedules or cross referencing of issues;
(5) Place primary emphasis upon improvement rather than criticism of the past;
(6) Identify and explain any issues, areas or questions which need further examination;
(7) State specific recommendations and, when possible, an estimate of the savings to be realized by implementing the recommendations;
(8) Identify areas that are well managed and note any improvements; and;
(9) Evaluate management decisions in light of the conditions, circumstances, and available information at the time the decisions were made.

Financial Audit Program Standards

Introduction

Throughout this document references are made to sections of the Ohio Revised Code and the Ohio Administrative Code that have been repealed. These references are included to illustrate how similar audits were conducted in the past. Some of the requirements of these sections may no longer be applicable in the current market environment. Such references are included here to provide guidance, but appropriate discretion on the part of the auditor will be necessary in order to conduct an audit in conformance with the specific requirements of the Companies' Electric Security Plan (ESP). The following instructions do not provide specific details for auditing every aspect of the company's FAC activities. It is anticipated that the auditor will ascertain and apply the relevant criteria in review of the company's decisions and actions related to the procurement of fuel, power, capacity, emission allowances, and environmental reagents.

4901:1-11

Appendix E
Uniform Financial Audit Program
Standards and Specifications for the Electric Fuel Component

(A) Purpose

The purpose of the "Uniform Financial Audit Program Standards and Specifications for the Electric Fuel Component" is to provide uniform standards and specifications as guidelines for an independent auditing firm which conducts an EFC financial audit pursuant to former section 4905.66(B)(2) of the Revised Code and former rule 4901:1-11-09 of the Administrative Code. The EFC financial audit program is only a guide for the auditor and should not be used to the exclusion of the auditor's initiative, imagination and thoroughness.

(B) Objectives

The objectives of the EFC financial audit program are to:

(1) Determine that the company has procedures that are in place and are being followed to achieve control of the following activities;
  (a) Processing of fuel receipt and consumption transactions;
  (b) Processing of energy purchase and sale transactions;
  (c) Processing of emission allowance purchases, swaps, and sales; and
  (d) Accurately calculating the EFC rate, including compliance with the financial procedural aspects of former Chapter 4901:1—11 of the Administrative Code.
(2) Verify the arithmetic accuracy of fuel component and other allowable amounts passed through the EFC rate to the company's customers;
(3) Verify the arithmetic accuracy of the company's calculation of the EFC rate;
(4) Verify the proper EFC rates are applied in customer billing.

(5) Review the procedures and control for assembly and reporting of information in the EFC forms;
(6) Determine whether the company is following procedures for processing fuel data and whether the procedures are reasonable;
(7) Determine whether the fuel delivered to the company meets quality and quantity specifications;
(8) Determine whether the company correctly reported payments made for acquisition and delivery costs of fuel; and
(9) Calculate the difference between actual net revenues and actual net fuel costs.

(C) Audit standards

The EFC financial audit required by former section 4905.66(B)(2) of the Revised Code and former rule 4901:1—11—09 of the Administrative Code shall be conducted in accordance with generally accepted auditing standards established by the American Institute of Certified Public Accountants.

(D) Scope of the EFC financial audit

The auditor shall conduct a standard financial audit for the audit period established by the commission. The objectives of the audit are set forth in section (B) above. In addition, the auditor shall determine:

(1) The difference, if any, between the total billed charges and those which should have been billed for the period under former Chapter 4901:1-11 of the Administrative Code; excluding, if any, the effect of any commission findings from the current management/ performance audit, and;
(2) Whether the recommendations developed in previous financial audits have been effectively implemented by the company.

(E) Minimum review requirements

The auditor's review shall include, but not be limited to, a review of:

(1) Purchasing procedures for fuel procurement not under long—term contracts;
(2) Procedures for accounting for fuel receipts, testing, and payments;
(3) Procedures for weighing, testing and reporting coal burned;
(4) Procedures for amortizing nuclear fuel costs corresponding to nuclear generated energy;
(5) Procedures for recording purchases and interchanges;
(6) Procedures for accounting treatment of emission allowances; and
(7) Procedures for calculating the EFC rate, including an evaluation of the company's compliance with the financial procedural aspects of former Chapter 4901:1—11 of the Administrative Code, and its application to customer bills.

(F) Audit procedures for fuel procurement

The procedures which the auditor shall follow in reviewing the company's fuel procurement practices and policies are:

(1) Review the company's fuel procurement procedures manual and written instructions for purchasing fuel and determine whether the procedures are being followed;
(2) Obtain the company's fuel supply contracts and review specifications for:
  (a) Total and periodic amount of fuel to be supplied;
  (b) Pricing provisions, including extent to which the contract is a cost plus profit contract, if its duration exceeds one year; and
  (c) Contract audit provisions;
(3) Review the quality specifications in each coal contract and determine whether the company's payments reflect adjustments for calorific value when the weighted average calorific value of fuel received differs from that stated in the contract;
(4) Review the company's procedures for verifying price escalations and contract amendments;
(5) Determine whether the price escalation provisions were correctly computed;
(6) Review the results of any fuel contract audits;
(7) If the company jointly owns a generating plant, determine whether fuel accountability transfers among companies are properly recorded; and
(8) Determine that fuel amounts being deferred, if any, comply with commission ordered treatment.

(G) Audit procedures for activities in the emission allowance market.

The procedures which the auditor shall follow in reviewing the electric utility's activities in the emission allowance market are:

(1) Determine the appropriateness of the company's allocation of emission allowances among companies within its system;
(2) Determine whether modifications to the allowance inventory were correctly computed;
(3) Determine the appropriateness of emission allowance distribution for the operating utility of jointly-owned units; and,
(4) Such other matters as the Commission or its Staff may direct be investigated or reviewed.

(H) Audit procedures for processing coal orders

The procedures which the auditor shall follow in reviewing the processing of coal order by the company are:

(1) Obtain a brief description of the company's procedure for processing fuel purchase orders;

(2) Obtain purchase orders for one month's fuel procurement during the EFC audit period and:
   (a) Relate and reconcile the purchase orders to fuel requirements;
   (b) Examine any changes to the purchase order and obtain explanations for unusual changes; and
   (c) Compare the purchase orders to approved purchased requisitions;
(3) Obtain cash vouchers for one month during the EFC audit period and:
   (a) Compare the invoice to the purchase order;
   (b) Trace the invoice quantities to the received reports;
   (c) Trace the invoices to the fuel ledger; and
   (d) Trace adjustments for British thermal units from the laboratory to the adjustment's application to payment invoices;
(4) For several days during the EFC audit period, obtain daily reports on the error conditions from matching invoices and receiving reports, note the errors' disposition and then review only unusual items;
(5) Obtain freight cash vouchers from two to five days of coal receipts during the EFC audit period, compare the freight cash vouchers to the coal received reports and the fuel ledger and note any differences;
(6) Obtain two cash vouchers each for barging the coal unloading during the EFC audit period, compare the tonnage to the unloading reports, and trace the terms and rates of the cash vouchers to the contract's purchase order, and fuel ledger;
(7) Obtain a description of the company's procedures for preparing monthly fuel analysis reports;
(8) Test such procedures by tracing adjustments from the fuel analysis reports to the payment invoices;
(9) Review all pending or approved retroactive escalations;
(10) Obtain purchase orders for two additional months during the EFC audit period and explain any unusual changes from the month reviewed under paragraph (G)(2) of this appendix;
(11) Correlate coal orders with contracts to validate consistency; and
(12) Summarize all discrepancies and suggestions resulting from the EFC audit and discuss them with officials of the company.

(I) Audit procedures for station visitation

The objective of the station visitation is to review the company's coal processing procedure from the receipt of the coal to the disposition of fly ash. The procedures which the auditor shall follow in conducting the station visitation are:

(1) Obtain a description of the company's coal receiving procedures and controls for shortages, overages or other discrepancies and:
   (a) Determine how the coal is weighed as received;
   (b) Determine how freight bills and car number discrepancies are handled;
   (c) Determine how damaged cars are checked and who instigates claims for shortages
   (d) Review the month end cutoff procedure; and

(e) Note any situations where the company does not follow the described procedure;

(2) Obtain a description of the company's coal sampling procedures and:
   (a) Determine the frequency of coal sampling;
   (b) Determine how the coal samples are identified;
   (c) Determine what control is exercised over forwarding coal samples to the laboratory;
   (d) Determine how a representative coal sample is selected for each fuel supplier; and
   (e) Obtain copies of receiving data for one month during the EFC audit period to compare with purchasing and accounting records;
(3) Obtain a description of the company's laboratory procedures for testing coal samples and;
   (a) Determine how coal samples are received and identified;
   (b) Identify any problems encountered in following the testing procedures;
   (c) Determine whether the testing methods are acceptable;
   (d) Determine how unusual results are handled;
   (e) Obtain copies of laboratory sampling reports for one month during the EFC audit period to compare with purchasing and accounting records; and
   (f) Determine how the company assures that all samples are received and actually tested;
(4) Obtain a description of the company's procedure for handling coal from the stockpile to the firebox or boiler and:
   (a) Examine the scale calibrating logs for conformity with the described procedure;
   (b) Determine what procedure is followed when coal scales are inoperable;
   (c) Review the month and cutoff procedure; and,
   (d) Obtain copies of consumption data for one month during the EFC audit period to compare with accounting and generation records;
(5) Obtain a description of the company's procedure for taking physical inventories of coal and fuel oil and:
   (a) Determine the frequency of the physical inventories;
   (b) Determine how density tests are performed and whether the samples are accurate;
   (c) Determine how cutoff data is established, who controls the data, and how often cutoffs are established;
   (d) Review the working papers on physical inventories and trace an adjustment to the general books, including fuel stock and consumption records;
   (e) Review how the company treats physical inventory adjustments in the fuel component calculation ad examine related reporting; and
   (f) Determine whether the company complies with the commission's approved procedures from physical inventory adjustments;
(6) Discuss with the station manager all procedure descriptions;
(7) Determine levels of review applicable to the operating statistics;
(8) Examine station reports and note any reviews, comments, or investigations;

(9) Obtain copies of the station reports sent to the company's general office for incorporation into company statistics and trace the reports to the statistics.

(J) Audit procedures for fuel supplies owned or controlled by the company

The procedures which the auditor shall follow in reviewing fuel supplies owned or controlled by the company are:

(1) Obtain and review for compliance copies of all contracts and agreements, including any amendments, between the company and any fuel supplier which is owned or controlled, in whole or in part, by the company or by a majority of its board of directors in their individual capacities;
(2) Verify that the price paid for fuel supplies are in accordance with the terms of the contracts or related agreements;
(3) Compare the cost of fuel purchased during the EFC audit period from each fuel supplier which is owned or controlled by the company with the fuel purchased during the same period by the company under long-term contracts or on the spot market; and,
(4) Review any internal audit or independent audit report and related work papers regarding each fuel supplier which is owned or controlled by the company.

(K) Audit procedures for purchased power

The procedures which the auditor shall follow in reviewing the company's power purchases are:

(1) Obtain a description of the procedures followed by the system dispatcher in purchasing power and determine:
    (a) Whether economic power, including economy energy, is properly reported based on the company's interconnection agreement; and,
    (b) The basis for purchasing emergency power;
(2) Review the procedures for reporting purchase power transactions to ensure they include sufficient information to complete the EFC forms;
(3) Verify purchased power transactions to related invoice, paid cash voucher, or cash receipts.

(L) Audit Procedures for Reviewing the EFC Rate

The procedures which the auditor shall follow in reviewing the EFC rate charged by the company:

(1) Obtain for the EFC audit period copies of all monthly, semiannual, and annual reports filed with the commission;
(2) Obtain copies of the company's working papers for computing the EFC rates charged during the EFC audit period, verify the accuracy of the calculations, and trace the costs shown on the working papers to their sources;

(3) Compare the EFC rate calculations in the working papers with the reports filed with the commission;
(4) Determine whether the company's calculations of the EFC rates comply with these guidelines;
(5) Determine whether the company's estimated data in calculating the EFC rates are reasonable;
(6) Determine the cutoff for calculating the average cost of fuel consumed;
(7) Identify the first billing cycle in the next current period to which a new EFC rate will be applied;
(8) Review the calculations of the cost effectiveness measure and efficiency incentive factors for each month of the EFC audit period, including any weighting factors, weighted averages, and estimations used in the calculations for arithmetic accuracy.

(M) Audit Report

The auditor shall prepare a "Certificate of Accountability of Independent Auditors" to be filed with the commission in accordance with former rule 4901:1—11—09(D) of the Administrative Code. The audit report shall:

(1) State the scope and objectives of the EFC audit;
(2) State the standards utilized in conducting the EFC audit;
(3) Objectively present findings, facts and conclusions in a clear and concise manner;
(4) State specific recommendations, if any, and, when possible, an estimate of the savings to be realized by implementing the recommendations; and
(5) Place primary emphasis upon improvement rather than criticism of the past.

Certificate of Accountability of Independent Auditors

To: (Company)

We have examined the quarterly filings and related monthly filings of (Company) which support the electric fuel component (EFC) calculation for the six month periods ended and for conformity in all material respects with the financial procedural aspects of the electric fuel component rate of the public utilities commission of Ohio (PUCO) as set forth in former Chapter 4901:1—11 and related appendices of the Ohio Administrative Code. Our examination for this purpose was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances and is responsive to the specific guidelines and objectives for the performance of such examination as contained in Appendix E of former Chapter 4901:1—11. We did not make a detailed examination as would be required to determine that each transaction was recorded in accordance with the financial procedural aspects of former Chapter 4901:1—11 and related appendices of the Ohio Administrative Code.

In our opinion, the (Company) has fairly determined the EFC rates for the six month periods ended and in accordance with the financial procedural aspects of the electric fuel component rate as set forth in former Chapter 4901:1—11 and related appendices of the Ohio Administrative Code and properly applied the EFC rates to customers bills.

(If applicable) Specific findings presented for attention of the PUCO are attached in a separate "Memorandum of Findings."

Firm Name: _____

_____

_____

Location: _____

_____

Date: _____

Management/Performance Audit Program Standards

Introduction

The information included here is intended to provide guidance, but appropriate discretion on the part of the auditor will be necessary in order to conduct an audit in conformance with the specific requirements of the Company's AER. The following instructions do not provide specific details for auditing every aspect of the Company's AER activities. It is anticipated that the auditor will ascertain and apply the relevant criteria in review of the Company's decisions and actions related to its AEPS compliance activities.

The management/performance audit shall include, at least, the following items:

1) A review of the Company's AEPS compliance planning activities during the audit period, including the schedule and process for evaluating compliance options;

2) A review of the REC and S-REC transactions entered into by the Company during the audit period, with an assessment as to the reasonableness of the transactions;

3) An assessment of the REC and S-REC markets during the audit period, both for in-state and adjacent state products; and

4) A review of the division of costs of renewable energy purchase agreements (energy and capacity costs through FAC, residual costs through AER) as well as a recommendation from the auditor on how to best determine the cost components and how to apply the allocation to specific situations in the context of the FAC/AER audits; and

(5) A review of any other specific items as identified by the Commission or its Staff.

The auditor shall prepare a management/performance audit report section to be filed with the Commission that shall:

1) State the scope and objectives utilized in conducting the audit;

2) State the methodology utilized in conducting the audit;

3) Objectively present findings, facts and conclusions in a clear and concise manner;

4) Include only the findings, facts, and conclusions which are adequately supported in the audit report or in the auditor's working papers; and may include supporting schedules or cross referencing of issues;

5) Identify and explain any issues, areas or questions which need further examination;

6) State specific recommendations and, when possible, an estimate of the savings to be realized by implementing the recommendations; and

7) Evaluate management decisions in light of the conditions, circumstances, and available information at the time the decisions were made.

Financial Audit Program Standards

Introduction

The information included here is intended to provide guidance, but appropriate discretion on the part of the auditor will be necessary in order to conduct an audit in conformance with the specific requirements of the Company's AER. The following instructions do not provide specific details for auditing every aspect of the Company's AER activities. It is anticipated that the auditor will ascertain and apply the relevant criteria in review of the Company's decisions and actions related to its AEPS compliance activities.

The financial audit shall include at least the following items:

1) A review of the Company's AER quarterly filings during the audit period to verify the accuracy of the calculations;

2) A review of the individual components (including, but not limited to, transactions of RECs or S-RECs and costs of implementing associated RFPs) that have been included within the Company's AER calculations in order to verify that the costs were appropriately included;

3) A review to verify the accuracy of calculations related to any carrying charges included in the Company's quarterly AER calculations;

4) A review of the Company's status relative to the 3% provision contained within Section, 4928.64(C)(3), Revised Code, and as further detailed in the Rule 4901:1-40-07, Ohio Administrative Code;

5) A review comparing the costs recovered through the Company's AER during the audit period to the costs incurred; and

6) A review of any other specific items as identified by the Commission or its Staff.

The auditor shall prepare a financial audit report section to be filed with the Commission that shall:

(1) State the scope and objectives of the audit;

(2) State the standards utilized in conducting the audit;

(3) Objectively present findings, facts, and conclusions in a clear and concise manner; and

(4) State specific recommendations, if any, and, when possible, an estimate of the savings to be realized by implementing the recommendations.