BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Distribution	)	
Investment Rider Contained in the	)	Case No. 14-255-EL-RDR
Tariffs of Ohio Power Company	)	

REPLY COMMENTS OF OHIO POWER COMPANY

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INITIAL REPLY COMMENTS OF OHIO POWER COMPANY

I. INTRODUCTION

Ohio Power Company ("Ohio Power" or "Company" or "AEP Ohio") filed its 2013 DIR Work Plan on December 3, 2012 (Case No. 12-3129-EL-UNC) as result of the August 8, 2012 Opinion and Order (O&O) in Case No. 11-346-EL-SSO. The plan filed was the result of months of collaboration with the Commission Staff to develop a comprehensive investment strategy which would ensure that the Work Plan met their expectations as well as customer expectations. The plan filed is a prudent Work Plan for both goals of the DIR investment, improving current reliability on a program basis as well as proactively replacing various aging infrastructure across the AEP Ohio system to maintain reliable service. The Company filed these plans as instructed by the Commission after working with its Staff.

The Office of the Ohio Consumer Counsel (OCC) and the Staff of the Commission (Staff) filed comments in this case to provide input into the annual audit of Ohio Power's 2013 Work Plan. The Staff's comments were generally in favor of the outcome and audit of AEP Ohio's 2013 DIR Work Plan. The Comments below are in reply to other comments filed and are intended to clarify the issues disused by the parties to the case to provide the Commission the necessary comments to allow for closure of the 2013 DIR work plan.

II. RESPONSES

A. The Company's Response to Comments Raised by OCC:

1. DIR IMPROVEMENTS SHOULD BE EVALUATED ON A PROGRAM BY PROGRAM BASIS AS ALREADY BUILT INTO THE DIR PLAN (OCC at IIA)

OCC improperly attacks the compliance audit purpose of this proceeding by attacking the general state of customer interruptions in the AEP Ohio territory over the past year. OCC states that since the number of customers interrupted increased from 2012 to 2013 that the DIR work plan did not improve reliability. Perhaps a more appropriate question would be how much worse would the outages have been had the Company not invested in the system to replace the aging infrastructure that the DIR was intended to prevent from failing.

The Company can easily demonstrate that there is no correlation between the increase in outages and the DIR plan due to several factors. Central to that analysis is the understanding already shared by the Commission that the Commission-approved work plan reliability improvements are to be evaluated on a program by program basis. First, the DIR work plan targets very specific programs which are considered to impact preventable types of outages. If in one year AEP Ohio sees a rise in outages due to customers digging into underground lines, there is no program on the DIR work plan to prevent this type of customer behavior and improve reliability in this area; although customers interrupted would rise from these events. OCC is asking for Ohio Power to be able to keep all outage types flat while making improvements in areas addressed in the DIR Plan which is unrealistic. There are several types of outages which would not be impacted by the DIR spending, but could increase the numbers of outages customers experience such as vehicle accidents, vandalism, objects on lines, etc. Second, annual weather variations have a significant impact on annual reliability. OCC does not take into consideration that annual weather patterns greatly impact outage variances each year. Years where more non-major event types of storms exist will most assuredly increase customer outages due to lightning, wind, trees outside the rights of way, etc. Increases in outages due to non-preventable causes are not taken into account in OCC's opinion and therefore should not be considered as a valid argument. The Commission instructed AEP Ohio to work with Staff, because these factors are understood and the two entities work to implement a plan that has the greatest impact on maintaining and improving reliability, which is at the root of the DIR. AEP Ohio has been able to demonstrate to Staff the reliability improvements made due to the work completed on the DIR programs.

In addition, OCC reverts to arguing the merits of the work plan in general which have already been argued and approved by the Commission in O&O in Case No. 12-3129-EL-UNC. Arguing that the DIR Plan does not provide enough detail or discuss reliability improvements in the style the OCC would prefer it to be shown is not an appropriate issue for an audit seeking to see if there is compliance. The Auditor did not determine it had insufficient information to understand its review. OCC's argument collaterally attacking prior Orders is a red herring. OCC then criticizes the information provided by AEP Ohio on reliability to the PUCO. (OCC Comments at page 4.) Ohio Power was able to fully demonstrate to Staff the reliability improvement from the work which was completed and Staff's comments clearly reflect the improvements made by the information provided. OCC is focused solely on reliability improvements and does not factor in the maintenance of the reliable system. Its tunnel vision on this point defies the Commission's approval of the DIR and will continue to dominate the OCC's comments and positions in this case. The reliability improvements show the impact of work which, for most work, was in service for less than a year, yet still had a very positive impact on reliability.

2. THE DIR WAS ESTABLISHED TO PROVIDE FOR TIMELY INVESTMENT IN THE DISTRIBUTION SYSTEM INCLUDING FOR ALL ASPECTS OF RELIABILITY AND TO MEET CUSTOMER AND COMPANY EXPECTATIONS (OCC at IIB)

In this argument OCC again focuses on what should be included in the DIR Work Plan even after its approval by the Commission. OCC asserts that any program included in the DIR Work Plan which does not include a reliability improvement should be stricken from the plan (in this audit phase of the proceeding). This is simply the wrong scope of the approved mechanism.

The DIR can include day to day capital investment items and is a mechanism for a capital return on the dollars invested outside of waiting for the next rate case filing. As the Commission stated in its Entry on Rehearing in the Company's modified ESP II proceeding, "[t]he Commission found it necessary to adopt the DIR to maintain utility reliability as well as to maintain the general alignment of customer and utility service expectations." (11-346-EL-SSO et al., January 30, 2013 Entry on Rehearing at Para. 50.) The programs included in the DIR are related to the investment in the distribution operations related to customer service. That may be improving reliability or just maintaining the current level by replacing equipment before it fails. It is not the intention to run all pieces of equipment to failure to show that it harms customers and then replace system components. Further, the final order in Case No. 13-2394-EL-RDR states "In response to OCC's concern that a significant portion of AEP Ohio's planned DIR spending in 2014 is expected to have no reliability impact, the Commission notes that the DIR, as approved in the ESP Case, consists of net capital additions to gross plant in service occurring after August 31, 2010, as adjusted for accumulated depreciation, and is not limited to investment in distribution assets that are expected to improve or maintain service reliability."(13-2394-EL-UNC Final Order at Para. 24.) The OCC has not raised any new arguments for this issue and as such their comments should be rejected.

The DIR allows the Company to proactively avoid unnecessary outages as part of its scope. The DIR also properly includes focus on customer and utility service expectations so that all aspects of the system are considered not just the limited area asserted by OCC.

3. STAFF'S COMMENTS EXPLAIN THE IMPACT OF THE DIR ON RELIABILITY. (OCC at IIC)

In response to the Staff's independent discussion of the facts behind the DIR spending and the impact on outages, OCC provides a misleading representation of the facts. The Staff included a table quantifying the reliability impact. (Table 6 at page 9 of Staff's Comments.) The Staff explained that the reductions have been small due to the smaller number of facilities involved and the short time period since the improvement went into service. (Staff Comments at page 9.) Staff goes on to state that it expects those numbers to increase in 2014 to reflect additional facilities affected and longer in service time periods. (Id.) OCC fails to include the analysis provided by Staff and instead presents an incomplete view of the Staff analysis and asserts a need for an evaluation. No such evaluation is needed as the Staff already explains that the result is what is expected due to the circumstances and the improvements will grow.

Ohio Power demonstrated to Staff the reliability improvements of all projects completed in 2013. Projects that were completed late in the year were included in the DIR spend shown and were also included in the reliability improvements; even though it gave many completed projects only minimal time to show improvement. Staff recognized in their comments that some projects were not given any time to show reliability improvements and that as time passes, those improvements will continue to increase. If all projects under the DIR could be completed on January 1, 2013, than you would be able to see a full year of benefits from the DIR spend and fully see the reliability improvements from all completed projects. In addition, some programs are designed to proactively replace equipment before outages occur. While the OCC may want customers to experience several outages before replacing equipment just to show the improvement afterwards, Ohio Power would rather continue to proactively replace aging equipment through the DIR Plan to both maintain system performance and improve reliability.

4. COST BASED ANALYSIS (OCC at IID)

The OCC believes that the Company should be required to provide a cost benefit analysis in conjunction with the DIR plan. The Commission should reject OCC's comments, *again*, as it did in its Entry on Rehearing in Case No. 11-346-EL-SSo at Para. 52. In the final order in Case No. 13-2394-EL-UNC, the Commission laid out specific metrics for the Company to provide in relation to the DIR. The Company provided those metrics to the Staff and the Staff supported those metrics. The OCC's position around a cost benefit analysis is based on their continued argument on DIR spending versus quantifiable improvements (OCC Comments at Page 10). However, putting aside the maintenance aspect of the DIR function, the Company has demonstrated an improvement in the reliability as further discussed in section 3 of these comments. In addition, the Commission reiterated that "the DIR, as approved in the ESP Case, consists of net capital additions to gross plant in service occurring after August 31, 2010, as adjusted for accumulated depreciation",(Final Order in Case No. 13-2394 at Para. 24). Again, a cost benefit analysis was not considered to be a component of the prudency audit nor would the

OCC's suggestion on how to do a cost benefit analysis be appropriate. OCC again is attempting to redefine the parameters of the DIR that they do not support.

The entire crux of the OCC's position is around reliability and it has already been determined that there is more to the DIR than strictly measured improvements in reliability and as such the cost benefit analysis proposes would not be possible. All of OCC's comments are based around reliability projects. This has already been determined by the Commission to be incorrect as stated above. The Commission acknowledges that there is more to the DIR than just reliability programs, and reiterates that the focus should be on improved reliability and lays out the criteria for determining the success of the DIR plan stating "The Commission's acceptance of AEP Ohio's 2014 DIR plan is contingent upon a positive outcome with respect to each of these next steps." (Final Order Case No. 13-2394-EL-UNC at Para. 23). The Company has provided these criteria and the Staff and Larkin and Associates have recognized the prudency and success of the DIR plan as filed by the Company.

5. THE CATEGORY LABELED AS "OTHER" IS A PRUDENT SPEND IN THE DIR PLAN AND HAS BEEN APPROVED AS A CATEGORY FOR COST RECOVERY (OCC at IIE)

The OCC once again is arguing against what programs should not be included in the approved 2013 DIR Plan and not about the merits of what came through from the audit. OCC challenges the plan they would prefer versus an audit of the plan approved and implemented. The category of "Other" in the DIR Plan accounts for capital costs which help maintain or improve system reliability. It is hard to fathom that someone would argue against the need of an electric utility to keep meters on hand or against their electric line workers from having the proper tools they need to work on the distribution lines. Stating that these types of items are unnecessary because they do not improve service reliability is unimaginable. Once again, the

OCC fails to recognize that the DIR Plan which has been approved reflects programs that do not only improve reliability but helps maintain system reliability for preventable outage causes. Another option would be to review the Commission order in Case No. 12-3129-EL-UNC "Although a primary objective of the DIR is to enable AEP Ohio to improve or maintain its service reliability, the DIR also provides the Company with a timely cost recovery mechanism for its prudently incurred distribution infrastructure investment costs and is expected to reduce the frequency of base distribution rate cases. Accordingly, as proposed by AEP Ohio and approved by the Commission in the ESP Case, the DIR consists of net capital additions to gross plant in service occurring after August 31, 2010, as adjusted for accumulated depreciation (ESP Case Order at 42), and is not limited to investment in distribution assets that are expected to improve or maintain service reliability" Opinion and Order Case No. 12-3129-EL-UNC at Para. 35). Nonetheless, for the 2014 DIR Plan, Ohio Power did break down the spend level currently shown in the category of "Other" in the 2013 DIR plan. This change will allow the OCC to better see the value and benefits of the spend currently captured under the category of "Other."

6. AN EVIDENTIARY HEARING IS NOT NEEDED FOR THE 2013 DIR PLAN (OCC at IIF)

The OCC believes that a hearing is necessary to analyze and evaluate the 2013 DIR Rider. Ohio Power believes that a hearing is not required since the plan has been approved, the Company provided staff with improvements results, and an independent auditor reviewed the spending under the plan. OCC's statements that a hearing would force the Company to quantify service reliability improvements are a blatant disregard of the Commission's previous orders in at least three cases disagreeing with OCC's position that narrowly focuses on reliability projects, and also Staff's comments which demonstrate that the Company complied with the

Commission's order to show reliability improvements and reference those improvements in their comments.

OCC likely seeks hearing to continue its attempt to undermine the Commission's approval of the DIR at every opportunity. OCC has consistently been opposed to the DIR in every aspect. Even OCC witness Effron in the Company's most recent ESP proceeding criticized the Commission for its approval of trackers like the DIR. OCC witness Effron testified that he believed that riders are contrary to sound regulatory policy and the fact that the Commission had approved them in the prior ESPs was just an indication that the Commission could have done better in the past. (*In the the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143, in the Form of an Electric Security Plan*, PUCO Case No. 13-2385-EL-SSO, Tr. XII at 2740.) The OCC seeks a hearing in this case not to consider the accounting or compliance with the Commission Order approving the DIR plan. OCC seeks hearing as a collateral attack on the ESP Order approving the DIR at the outset and to offer arguments already offered in practically every docket that even mentions the DIR.

This case has no basis for the issuance of a hearing. The independent auditor validated the Company's actions implementing the Commission Order. The Commission Staff filed comments accepting that audit report and supporting the actions of the Company and its compliance with Commission Orders. There are simply no issues, beyond OCC's stout opposition to the existence of the DIR, that are ripe for a hearing and none should be ordered.

Even OCC's attempt to assert a disallowance was already addressed in this case by the auditor and is without merit. (OCC Comments page 12.) As a clarification, the staff report clearly identifies that the Wheeling Power's portion of the DIR Plan does not close to Ohio Plant and is not included for recovery in OPCo's Rider DIR (Larkin Report 6-4). The audit report explains that there were dollar amounts for the planned and actual spending in the DIR plan that included that affiliate spend. However, this was for the plan only and no dollars were included for recovery. The Company provided an update to the auditor and Staff to remove that affiliate spend from both the planned and actual amounts of the DIR plan. Both the auditor and the Staff recommend an annual reconciliation from the DIR plan to distribution plant in service as recovered through the rider each year. The Company did not take any issue to this recommendation.

There is no basis to seek a hearing on this DIR filing. Asking for a hearing to demonstrate the same reliability information which was already shared with Staff or to discuss the attributes of the 2013 DIR Plan itself would be an unnecessary use of both the Commission’s time and the Company’s time.

III. CONCLUSION

Ohio Power respectfully requests the Commission consider the comments provided in response to the OCC and determine that the concerns the OCC raised have already been considered and rejected by the Commission in this case and the OCC has not raised any new issues here. Further, the Company has provided the necessary information, as ordered by the Commission, to determine that the DIR plan and audit has accomplished the benefit that the Commission required through the approval of the DIR mechanism.

Respectfully submitted,

//ss//Yazen Alami__________

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Comments have been served upon the below-named persons via electronic service this 25th day of September, 2014.

/s/ Yazen Alami

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