

# **THE PUBLIC UTILITIES COMMISSION OF OHIO**

**IN THE MATTER OF THE APPLICATION  
OF OHIO POWER COMPANY TO UPDATE  
ITS STORM DAMAGE RECOVERY RIDER  
RATES.**

**CASE NO. 16-821-EL-RDR**

## **FINDING AND ORDER**

Entered in the Journal on May 17, 2017

### **I. SUMMARY**

{¶ 1} The Commission finds that the application of Ohio Power Company d/b/a AEP Ohio to update its storm damage recovery rider rates should be approved, with modifications.

### **II. DISCUSSION**

{¶ 2} Ohio Power Company d/b/a AEP Ohio (AEP Ohio or the Company) is an electric distribution utility as defined in R.C. 4928.01(A)(6) and a public utility as defined in R.C. 4905.02, and, as such, is subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4928.141 provides that an electric distribution utility shall provide consumers within its certified territory a standard service offer (SSO) of all competitive retail electric services necessary to maintain essential electric services to customers, including a firm supply of electric generation services. The SSO may be either a market rate offer in accordance with R.C. 4928.142 or an electric security plan (ESP) in accordance with R.C. 4928.143.

{¶ 4} In Case No. 11-346-EL-SSO, et al., the Commission modified and approved AEP Ohio's application for a second ESP, effective with the first billing cycle of September 2012 through May 31, 2015. Among other proposals, the Commission approved AEP Ohio's request to establish a storm damage recovery rider (SDRR) to enable the Company

to recover incremental expenses incurred due to major storm events. Specifically, AEP Ohio was authorized to defer incremental distribution expenses above or below an annual amount of \$5 million that are related to major events as defined in Ohio Adm.Code Chapter 4901:1-10. *In re Columbus Southern Power Co. and Ohio Power Co.*, Case No. 11-346-EL-SSO, et al. (*ESP 2 Case*), Opinion and Order (Aug. 8, 2012) at 68-69, Entry on Rehearing (Jan. 30, 2013) at 54-55.

{¶ 5} In Case No. 12-3255-EL-RDR, the Commission adopted a joint stipulation and recommendation filed by AEP Ohio, Staff, and several other parties and, thereby, approved the Company's request to establish initial SDRR rates to recover major storm restoration costs associated with the June 29, 2012 derecho, as well as two other major storm events that occurred in July 2012. *In re Ohio Power Co.*, Case No. 12-3255-EL-RDR (*Storm Damage Case*), Opinion and Order (Apr. 2, 2014), Entry on Rehearing (May 28, 2014).

{¶ 6} In Case No. 13-2385-EL-SSO, et al., the Commission approved, pursuant to R.C. 4928.143, AEP Ohio's application for a third ESP for the period of June 1, 2015, through May 31, 2018. Among other matters, the Commission approved AEP Ohio's proposal to continue the SDRR, including the Company's request to file an annual true-up in April of each year. *In re Ohio Power Co.*, Case No. 13-2385-EL-SSO, et al. (*ESP 3 Case*), Opinion and Order (Feb. 25, 2015) at 55-56.

{¶ 7} On April 15, 2016, in the above-captioned case, AEP Ohio filed an application to update its SDRR rates. In the application, AEP Ohio explains that it proposes to refund the net deferral of the over-recovered SDRR balance as of December 31, 2015. AEP Ohio further explains that its filing includes the balance of the ESP 2 period from December 2012 through May 2015, as well as the ESP 3 period from June through December 2015, and is inclusive of the net costs under the \$5 million annual base from 2013 through 2015. According to AEP Ohio, the SDRR collections approved in the *Storm*

*Damage Case* have been netted against the costs. Finally, AEP Ohio states that it proposes to pass back the over-collection over a one-month period, although the Company notes that its proposal should not set a precedent for future cases. AEP Ohio recommends a credit of \$0.58 for residential customers and \$2.43 for non-residential customers.

{¶ 8} Staff filed its review and recommendations on September 1, 2016. AEP Ohio filed reply comments on October 24, 2016. On April 7, 2017, Staff filed a reply in response to AEP Ohio's reply comments. AEP Ohio filed correspondence regarding Staff's reply on April 26, 2017. No other comments or motions for intervention were filed in this case.

**A. *Summary of Staff Report and Reply Comments***

{¶ 9} In its review and recommendations, Staff notes that AEP Ohio's application includes the under-recovered portion authorized for recovery in the *Storm Damage Case*, which totals \$71,610, plus annual incremental storm repair expenses over or under \$5 million dating back to December 2012, resulting in a total credit deferral of approximately \$1.2 million that the Company proposes to be credited to customers over a one-month period. Following its review, Staff recommends that AEP Ohio's application be approved, subject to Staff's recommended adjustment. First, Staff recommends a deduction for a portion of the revenues that AEP Ohio has received from other jurisdictional utility companies for the Company's provision of mutual storm assistance. Staff explains that the adjustment is recommended to reflect the straight-time labor costs that have been included in AEP Ohio's base rates and that are related to mutual storm assistance for which the Company was reimbursed by other utility companies. Specifically, Staff recommends deductions of \$165,454 for 2014 and \$148,235 for 2015. Staff also notes that it calculated an overhead rate of 36 percent that is not incremental to AEP Ohio's base rates. Staff, therefore, recommends a corresponding deduction of \$112,928. Staff concludes that its total recommended adjustment is \$426,617, which

would result in a credit of \$0.79 for residential customers and \$3.30 for non-residential customers for a one-month period.

{¶ 10} In its reply comments, AEP Ohio responds that it disagrees with Staff's recommended adjustment, as it would enable customers to retain the benefits of mutual storm assistance, while disallowing a significant portion of the Company's costs. According to AEP Ohio, customers receive year round benefits from the Company's reciprocal participation in the mutual storm assistance program that far exceed the costs. AEP Ohio explains that the program allows the Company to utilize the resources of other utilities during events that impact the Company's customers, which avoids the increased costs of obtaining additional employees and equipment to restore power. AEP Ohio asserts that, when its employees return from providing mutual storm assistance in other areas, they have to address a backlog of work that arises in the Company's service territory, which often involves incremental overtime costs that are not included in base rates or any other recovery mechanism, including the SDRR. Further, AEP Ohio argues that Staff's recommended adjustment inappropriately focuses on a small part of the cost structure established in the Company's last distribution rate case, without considering the structure as a whole. AEP Ohio concludes that its mutual storm assistance costs should be approved for recovery and that Staff's concerns should be addressed in the Company's next rate case.

{¶ 11} Although AEP Ohio disputes Staff's recommended adjustment, the Company contends that, if it is adopted, it should only apply from June 1, 2015, and forward. AEP Ohio argues that it would be unlawful to exclude any mutual storm assistance expenses prior to the date on which the tariffs approved in the *ESP 3 Case* became effective, because the Commission had not considered the mutual assistance issue until its Opinion and Order was issued in that case. Next, AEP Ohio asserts that Staff's calculation of the 2015 adjustment failed to use the average hourly rate from the

Company's most recent distribution rate case, which, according to the Company, more accurately reflects the labor dollars included in the test year and was used by Staff in the calculation of the 2014 adjustment. Finally, AEP Ohio maintains that Staff's calculation should reflect that approximately 60 percent of the labor dollars included in the test year for the distribution rate case was charged to operations and maintenance (O&M) expense, with the remaining 40 percent charged to capital. AEP Ohio states that its recommended corrections to Staff's calculation result in a total adjustment of \$99,645.

{¶ 12} In Staff's reply to AEP Ohio's reply comments, Staff states that it agrees with the Company's position regarding the hourly rate and the allocation of labor between O&M expense and capital. Staff further states that, as a result, it recommends an adjustment of \$240,390, which would result in a credit of \$0.70 for residential customers and \$2.92 for non-residential customers.

{¶ 13} In its correspondence dated April 26, 2017, AEP Ohio states that, while it does not agree with all of the statements and recommendations in Staff's reply, the Company is willing to accept Staff's updated position as a reasonable resolution of this case.

#### **B. Commission Conclusion**

{¶ 14} Upon review of AEP Ohio's application to update its SDRR rates and Staff's recommendations, the Commission finds that the application does not appear to be unjust or unreasonable and that it should be approved, with modifications. As we have previously stated, AEP Ohio must demonstrate that major storm costs sought to be recovered through the SDRR are incremental to any cost recovery through base rates. *ESP 2 Case*, Opinion and Order (Aug. 8, 2012) at 68-69; *ESP 3 Case*, Opinion and Order (Feb. 25, 2015) at 56. AEP Ohio must also show that any mutual assistance revenues are not a reimbursement of labor hours that are already reflected in base rates. *ESP 3 Case* at

56. The Commission, therefore, adopts Staff's recommended adjustment, as revised in Staff's reply dated April 7, 2017. Accordingly, the Commission authorizes AEP Ohio to file revised tariffs to implement the updated SDRR rates, consistent with this Finding and Order. Finally, the Commission finds that it is unnecessary to hold a hearing in this matter.

### III. ORDER

{¶ 15} It is, therefore,

{¶ 16} ORDERED, That AEP Ohio's application be modified and approved. It is, further,

{¶ 17} ORDERED, That AEP Ohio be authorized to file tariffs, in final form, consistent with this Finding and Order. AEP Ohio shall file one copy in this case docket and one copy in its TRF docket. It is, further,

{¶ 18} ORDERED, That the effective date of the new tariffs shall be a date not earlier than the date upon which the final tariff pages are filed with the Commission. It is, further,

{¶ 19} ORDERED, That AEP Ohio shall notify all affected customers via a bill message or bill insert within 30 days of the effective date of the tariffs. A copy of the customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability and Service Analysis Division, at least ten days prior to its distribution to customers. It is, further,

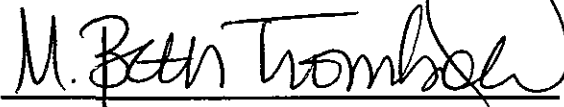
{¶ 20} ORDERED, That nothing in this Finding and Order shall be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 21} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO




Asim Z. Haque, Chairman



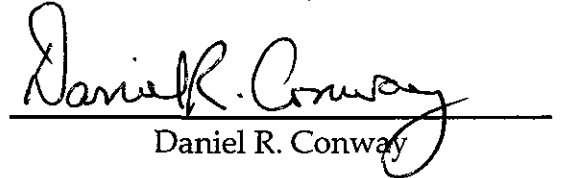
M. Beth Trombold



Thomas W. Johnson



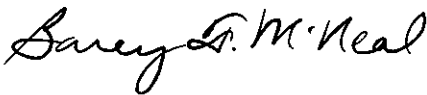
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