BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the 2011 Through 2016	**)**	
Review of the Energy Efficiency and Peak	**)**	**Case No. 17-30-EL-RDR**
Demand Reduction Rider Contained in	**)**	
Tariffs of Ohio Power Company.	**)**	

REPLY COMMENTS OF OHIO POWER COMPANY

I. Introduction

In adopting the Electric Security Plan (ESP) for Ohio Power Company ("AEP Ohio" or the "Company") in Case Nos. 09-917-EL-SSO *et al.*, the Public Utilities Commission of Ohio ("Commission") approved, among the other components of the ESP, an Energy Efficiency/Peak Demand Reduction Rider (EE/PDR). In approving subsequent ESPs, the Commission approved the continuation of the EE/PDR. On March 29, 2017 the Commission selected Larkin & Associates LLC ("Larkin") to perform an audit of AEP Ohio's EE/PDR rider from 2011 through 2016. Additionally, on August 18, 2018 the Attorney Examiner set a procedural schedule setting comments to be filed in this docket by October 19, 2018 and reply comments by November 19, 2018. Consistent with that schedule, AEP Ohio submits these reply comments to the Ohio Consumers' Counsel Comments filed on October 19, 2018.

II. Reply Comments

A. Recovery of Competitive Market Based Compensation Costs (Larkin Financial Audit Recommendations Three, Four, Eight, Twelve, Sixteen, Nineteen, and Twenty-Two)

OCC argues that the Larkin's recommendation regarding the Company's recovery of certain compensation components should go one step further. (OCC Comments at 3.) Larkin determined that the payroll associated with certain cost components should be limited to the amount that was not based on financial incentives. (Audit Report at 1-77.) OCC has taken the stance that the total value of the payroll associated with certain cost components should be removed, citing a recent Staff report in a case involving Duke Energy Ohio's energy efficiency program which recommended the disallowance of charges to customers for "incentive pay, performance awards[,] and restricted stock units." (OCC Comments at 3.) But as Staff acknowledged in that same Staff report quoted by OCC, "Staff typically does not allow for the recovery of incentives * * * <u>based on financial results</u>." (Emphasis added.) Case No. 15-534-EL-RDR, Staff Report at 2-3 (June 23, 2016). The methodology of incrementally disallowing certain compensation as it relates to financial goals is consistent with past practice, and it was included in the Staff report issued in AEP Ohio's last base distribution case. Case No. 11-351-EL-AIR, *et al.*, Staff Report at 10 (Sept. 15, 2011).

In its comments regarding the audit report, the Company fully explained why it is inappropriate to disallow any compensation and also took issue with Larkin's recommendation that the full amount of stock-based awards be eliminated as that is not consistent with past practice. (AEP Ohio Comments at 2-5.) The Company disagrees with the removal of any compensation. (*Id.*) If the Commission nonetheless determines

that certain components of compensation should be removed, it should also determine that a consistent approach would be to eliminate only the compensation tied to financial goals. OCC's recommendation to eliminate all compensation is not consistent with past practice and should be disregarded. In any event, this issue is better addressed in a base distribution case and not this rider-specific proceeding. For these reasons and those set forth in the Company's comments (at 2-5), both Larkin and OCC recommendations should not be adopted.

B. Recovery of Costs of Gift Cards for Seminars and Conferences (Larkin Financial Audit Recommendations Five, Nine, Thirteen, and Twenty-Five)

OCC argues, based upon information that the Company provided to Larkin in a data response, that AEP Ohio gave gift cards in each year to attendees of seminars and conferences outside of Ohio. (OCC Comments at 4.) The inference that the gift cards were provided in these types of seminars outside of Ohio is not factually accurate. The Company did not provide gift cards at conferences or seminars outside of Ohio. The Commission should ignore OCC's inaccurate comments, which reflect that OCC fundamentally misunderstood the Company's responses to Larkin's data requests. OCC was copied on all responses to data requests and had the necessary information around the difference between conferences employees attended to further their education on energy efficiency programs (where no gift cards were provided) and the seminars that the Company sponsors locally for consumer education, where gift cards were provided. The Company has fully explained the reasonableness of providing gift cards for customer draw and education at its events in Ohio in its comments to the audit report filed on

October 19, 2018. (*See* AEP Ohio Comments at 4-5.) The Commission should disregard OCC's erroneous comments on this issue.

C. Recovery of Costs of Sporting Events and Entertainment Events (Larkin Financial Audit Recommendations Six, Ten, and Fourteen)

OCC agrees with Larkin's recommendation to exclude costs associated with sporting and entertainment events from the EE/PDR, referring to a recent Commission order in a Duke Energy Ohio energy efficiency case to support its recommendation. (OCC Comments at 5). It is not clear in the Staff Report that OCC references whether there are differences between the way the Duke energy efficiency program costs were treated in Duke's last base distribution case and how AEP Ohio's energy efficiency costs were treated in the Company's last base case. AEP Ohio removed all expenses that related to the EE/PDR rider from its last base distribution case. As such, the Company includes for recovery through the rider all costs associated with the EE/PDR department. There are many business expenses that one could argue do not benefit the rider when in actuality they do, because they are necessary expenses for the energy efficiency employees to perform their responsibilities. In response to Larkin's inquiry regarding these types of expenses the Company responded, "[t]hese expenses for AEP Ohio's EEPDR team, whose costs are incremental to AEP Ohio base rates, are reasonable and not excessive. These activities are important to demonstrate appreciation for the team's efforts and celebrate the team's successes. These events also improve the effectiveness of the team by increasing the engagement of the team members." (Audit Report at 1-28.)

This audit is based on reasonable expenditures and it is important for the Commission to know that the amounts spent for entertainment were not every year, were certainly not egregious, and amounted to a reasonable value of $3,080 over the six year

period (averaging $513.33 per year). It is not appropriate for OCC or any other party to make blanket comparisons of each utility in the State; rather, the expenditure amounts and frequency should be assessed on a case–by-case basis to determine whether or not those types of expenditures are reasonably related to providing energy efficiency benefits to customers and prudent when taken as a whole.

The Commission also should reject OCC's related recommendation that the Commission require AEP Ohio to update its polices to inform employees that customers are not to be charged for sporting events and other entertainment events because they do not provide any energy efficiency benefits to consumers. (OCC Comments at 6-7.) The Commission has the ability to review the Company's policies and procedures, and OCC's recommendation goes far beyond the Company's expense reporting policy. The thought of having a separate travel and entertainment policy for one rider versus the rest of the entire Company is unnecessary and inappropriate. Again, it is important to reiterate that the Larkin recommended total reductions in this audit of $573,070 over a 6 year period. It is even more important to reiterate that the bulk of the recommended reduction is for payroll-related expenses. If the Commission rejects these types of expenditures, the order will reflect the Commission's decision on these types of costs running through the EE/PDR rider and the Company will comply with the Commission order. This process is a given and does not require a re-write of Company policies.

D. Recovery of Incremental Labor Costs (Larkin Financial Audit Recommendation One)

OCC recommends that the Commission adopt Larkin's recommendation on recovery of labor costs through the EE/PDR rider. (OCC Comments at 6.) OCC did not raise any additional arguments on this point beyond those raised in the audit report, and

the Company has fully provided its position on this recommendation through its comments filed on November 19, 2019. (*See* AEP Ohio Comments at 1-2.)

III. Conclusion

Consistent with the above explanation, AEP Ohio urges the Commission to reject OCC's recommendations.

Respectfully submitted,

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CERTIFICATE OF SERVICE

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy of the foregoing was sent by, or on behalf of, the undersigned counsel to the following individuals this 9th day of November, 2018, via electronic transmission.

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Summary: Comments - Reply Comments of Ohio Power Company electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company