

THE PUBLIC UTILITIES COMMISSION OF OHIO

**IN THE MATTER OF THE APPLICATION
OF OHIO POWER COMPANY TO UPDATE
ITS GRIDSMART PHASE 2 RIDER.**

CASE No. 17-1156-EL-RDR

FINDING AND ORDER

Entered in the Journal on March 27, 2019

I. SUMMARY

{¶ 1} The Commission adopts Staff's revised recommendations, as filed on November 7, 2018, regarding the annual audit of Ohio Power Company d/b/a AEP Ohio's gridSMART Phase 2 Rider.

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. 08-917-EL-SSO, et al., the Commission modified and approved AEP Ohio's application for a first ESP, including the Company's proposal to establish a gridSMART rider and initiate Phase 1 of its gridSMART program, which would focus on advanced metering infrastructure, distribution automation, and home area network initiatives. *In re Columbus Southern Power Co.*, Case No. 08-917-EL-SSO, et al., Opinion and Order (Mar. 18, 2009) at 37-38, Entry on Rehearing (July 23, 2009) at 18-24.

{¶ 5} 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 provisions of the ESP, the Commission approved AEP Ohio's request to continue the gridSMART Phase 1 project, as well as the gridSMART Phase 1 Rider. The Commission also directed AEP Ohio to file an application addressing Phase 2 of the gridSMART program. *In re Columbus Southern Power Co. and Ohio Power Co.*, Case No. 11-346-EL-SSO, et al., Opinion and Order (Aug. 8, 2012) at 62-63, Entry on Rehearing (Jan. 30, 2013) at 53.

{¶ 6} In Case No. 13-2385-EL-SSO, et al., the Commission modified and approved a third ESP for AEP Ohio for the period of June 1, 2015, through May 31, 2018. Among other matters, the Commission approved AEP Ohio's proposal to extend the gridSMART program. The Commission found that, after the review and reconciliation of the gridSMART Phase 1 costs, AEP Ohio should be authorized to transfer the approved capital cost balance into its Distribution Investment Rider and should also transfer any unrecovered operations and maintenance balance into the gridSMART Phase 2 Rider. *In re Ohio Power Co.*, Case No. 13-2385-EL-SSO, et al., Opinion and Order (Feb. 25, 2015) at 51-52.

{¶ 7} In Case No. 13-1939-EL-RDR, the Commission modified and approved a joint stipulation and recommendation (Stipulation) regarding AEP Ohio's application to implement Phase 2 of its gridSMART project. The Stipulation provides that costs incurred for the gridSMART Phase 2 project will be recovered through the gridSMART Phase 2 Rider, which is adjusted on a quarterly basis and subject to an annual audit for prudence. *In re Ohio Power Co.*, Case No. 13-1939-EL-RDR (*Phase 2 Rider Case*), Opinion and Order (Feb. 1, 2017) at ¶ 33.

{¶ 8} On April 28, 2017, in the above-captioned proceeding, AEP Ohio filed an application to update its gridSMART Phase 2 Rider. Subsequently, AEP Ohio filed

additional quarterly adjustment applications on July 28, 2017, October 26, 2017, and January 29, 2018.

{¶ 9} On May 12, 2017, the Ohio Consumers' Counsel (OCC) filed a motion to intervene in this proceeding, which was granted by the Commission on February 28, 2018.

{¶ 10} On July 3, 2018, Staff filed its review and recommendations addressing the annual audit of AEP Ohio's gridSMART Phase 2 Rider for 2017. AEP Ohio filed reply comments on July 24, 2018.

{¶ 11} By Entry dated August 28, 2018, the attorney examiner established a procedural schedule, in order to assist the Commission in its review of AEP Ohio's gridSMART Phase 2 Rider for 2017.

{¶ 12} Consistent with the established procedural schedule, OCC filed comments on October 12, 2018, and AEP Ohio filed reply comments on November 2, 2018.

{¶ 13} On November 7, 2018, Staff filed its revised review and recommendations. AEP Ohio filed correspondence in response on November 13, 2018.

A. *Summary of Staff Reports and AEP Ohio's Response*

{¶ 14} In its review and recommendations, Staff reports that AEP Ohio has appropriately included in its gridSMART Phase 2 Rider only those costs that were incurred as a result of serving its retail customers in Ohio, with the exception of several recommended adjustments totaling \$67,152. First, Staff asserts that \$451 for employee memberships should be excluded from the gridSMART Phase 2 Rider, which, according to Staff, AEP Ohio confirmed in a response to a data request. Next, Staff recommends a reduction of \$6,522 for meals and other miscellaneous charges. Staff notes that its proposed adjustment consists of \$2,454 for expenses associated with group lunches, food and refreshments for meetings, a car wash, and gift cards, as well as \$4,068 for

miscellaneous transactions that AEP Ohio agreed should be excluded. For its third adjustment, Staff states that it identified \$59,556 in costs related to fleet services that are recovered through base rates and should, therefore, be removed. Finally, Staff notes that AEP Ohio incorrectly included two charges for Ohio use tax totaling \$623 that should be excluded.

{¶ 15} AEP Ohio responds that it agreed, in its response to Staff's data request, that the expenses associated with the employee memberships should be removed. AEP Ohio notes, however, that \$300.80 of Staff's adjustment is already included in the \$4,068 that the Company agreed to deduct for miscellaneous charges. AEP Ohio contends that the proper amount of this adjustment is \$150. With respect to Staff's recommended adjustment for meals and miscellaneous charges, AEP Ohio notes that, as represented by Staff, the Company has already agreed with the \$4,068 reduction for certain miscellaneous transactions. For the remaining amount of \$2,454, AEP Ohio states that it continues to disagree with Staff's consistent elimination of meals and miscellaneous expenses. According to AEP Ohio, Staff should recognize that such expenses may, at times, be reasonably and prudently incurred in conjunction with the conduct of business. Regarding Staff's recommended adjustment of \$59,556 for fleet services, AEP Ohio responds that all of its gridSMART costs, including applicable fleet costs, were excluded from the test year in the Company's last base distribution case, Case No. 11-351-EL-AIR, et al. Accordingly, AEP Ohio asserts that its fleet costs are incremental to base rates and should be recovered through the gridSMART Phase 2 Rider. AEP Ohio adds that its gridSMART-related fleet expenses dating back to 2009 have been recovered through the rider. Finally, regarding Staff's proposed adjustment related to the Ohio use tax, AEP Ohio asserts that the adjustment should be reduced by \$600, as this amount has already been removed through the normal course of business. AEP Ohio concludes that Staff's total recommended adjustment should be reduced from \$67,152 to \$4,241.

{¶ 16} In its revised review and recommendations, Staff states that, after working with AEP Ohio and obtaining additional information, Staff has revised its recommended

adjustments. With regard to the employee memberships, Staff recommends an adjustment of \$150, which reflects the portion of the membership fees that was not already embedded in Staff's recommended disallowance for meals and miscellaneous charges. Regarding fleet services, Staff notes that AEP Ohio has provided additional documentation demonstrating that its fleet costs were incremental to base rates and should, therefore, be recovered through the gridSMART Phase 2 Rider. Staff recommends that AEP Ohio be required to continue to work with Staff in developing supporting documentation on this issue in future audits. Consistent with its revised recommendations, Staff requests that AEP Ohio be required to reflect in its next quarterly filing a total adjustment of \$7,295, consisting of \$6,522 for meals, \$150 for employee memberships, and \$623 associated with Ohio use tax.

{¶ 17} In its correspondence dated November 13, 2018, AEP Ohio states that, although it does not agree with all of Staff's revised recommendations, the Company is willing to accept Staff's updated position as a reasonable outcome in this case.

B. Summary of OCC's Comments and AEP Ohio's Response

{¶ 18} In its comments, OCC states that it agrees with Staff's findings and proposed adjustments. OCC recommends, however, that Staff be directed to file additional information no later than 30 days after the issuance of a Commission order in this case and in all future compliance reviews, until the operational savings audit ordered in the *Phase 2 Rider Case* is completed.¹ Noting that customers are expected to experience considerable savings from the gridSMART Phase 2 deployment, OCC requests that Staff be required to report, at a minimum, the scope of the operational savings audit and the specific auditor tasks, the status and schedule for the request for proposal (RFP) process, a schedule for when the audit will be performed, and the estimated date on which the

¹ Specifically, the Stipulation approved in the *Phase 2 Rider Case* contemplates that Staff will retain an external consultant, under Staff's direction, to review the Phase 1 and Phase 2 operational benefits of the gridSMART project. The consultant will evaluate and recommend an ongoing level of operational benefits to be achieved and recognized in AEP Ohio's rates. *Phase 2 Rider Case*, Opinion and Order (Feb. 1, 2017) at ¶¶ 34-35.

audit results with the actual operational savings will be publicly available. OCC adds that Staff should be directed to issue the RFP for the operational savings audit no later than 30 days after the Commission's decision in this case. Although OCC acknowledges that the Stipulation in the *Phase 2 Rider Case* provides for a \$400,000 quarterly operational savings credit until the audit is performed, OCC asserts that the audit and RFP process have been delayed without justification, which is contrary to the Commission's prior directives. *Phase 2 Rider Case*, Opinion and Order (Feb. 1, 2017) at ¶ 66. Finally, OCC recommends that the gridSMART Phase 2 Rider tariffs should continue to state that the rider is subject to reconciliation, including potential refunds to customers, as the Commission ordered in this case on February 28, 2018.

{¶ 19} In response to OCC's comments, AEP Ohio reiterates its position that Staff's proposed adjustments are not reasonable and should not be adopted by the Commission, except as otherwise noted in the Company's response to Staff. With respect to OCC's recommendations regarding the operational savings audit, AEP Ohio asserts that the recommendations are beyond the scope of this case. AEP Ohio further asserts that it has provided the \$400,000 quarterly operational savings credit and adhered to the reporting requirements in the Stipulation in the *Phase 2 Rider Case*. Additionally, AEP Ohio notes that, if the operational savings audit is conducted too soon, there may be a lack of sufficient infrastructure installed and data available to determine the appropriate amount of operational savings to be passed through to customers. Regarding the gridSMART Phase 2 Rider tariffs, AEP Ohio notes that the tariffs, as previously approved by the Commission, already contain refund language, as OCC requests.

C. *Commission Conclusion*

{¶ 20} Upon review of the parties' positions in this case, the Commission adopts Staff's recommendations, as revised on November 7, 2018. Accordingly, AEP Ohio's next quarterly filing to adjust the gridSMART Phase 2 Rider should reflect a reduction of \$7,295. We note that most of this amount is related to meal expenses, which have previously been excluded from AEP Ohio's recovery of its gridSMART costs. The

Commission noted that expenditures for meals or refreshments do not appear to offer any direct and primary customer benefit and, therefore, should not be borne by ratepayers. *In re Ohio Power Co.*, Case No. 15-240-EL-RDR, et al., Finding and Order (Apr. 19, 2017) at ¶ 32.

{¶ 21} Additionally, we find that OCC's recommendations regarding the gridSMART Phase 2 Rider tariffs and the operational savings audit are unnecessary. As AEP Ohio notes, the Commission already approved refund language for the gridSMART Phase 2 Rider tariffs on February 28, 2018, and the tariffs, in their current form, continue to provide that the rider is subject to reconciliation, including potential customer refunds. Turning to the operational benefits assessment required by the Stipulation in the *Phase 2 Rider Case*, we note that, on November 7, 2018, the RFP to obtain consulting services for the operational benefits assessment was issued, which set forth the schedule and other parameters for the operational benefits assessment, and a consultant was selected by the Commission on December 19, 2018. *In re Ohio Power Co.*, Case No. 18-1618-EL-RDR, Entry (Nov. 7, 2018), Entry (Dec. 19, 2018). Pursuant to the timeline for the operational benefits assessment, the final report of the consultant is due to be filed with the Commission on April 12, 2019. For these reasons, we decline to adopt OCC's recommendations in this case.

III. ORDER

{¶ 22} It is, therefore,

{¶ 23} ORDERED, That Staff's revised recommendations, as filed on November 7, 2018, be adopted. It is, further,

{¶ 24} ORDERED, That AEP Ohio take all necessary steps to carry out the terms of this Finding and Order. It is, further,

{¶ 25} 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,


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

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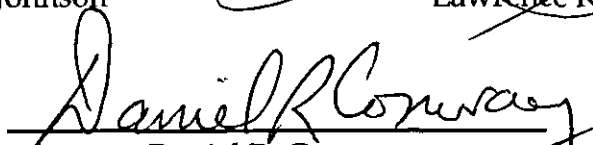
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