BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the 2016 Review of the Distribution Investment Rider Contained in the Tariff of Ohio Power Company	))))	Case No. 17-38-EL-RDR
	)	
In the Matter of the 2017 Review of the Distribution Investment Rider Contained in the Tariff of Ohio Power Company	))))	Case No. 18-230-EL-RDR

REPLY BRIEF
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTLITIES COMMISSION OF OHIO

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INTRODUCTION

The Stipulation presented in this case enhances the benefits to rate payers identified in the Ohio Power Company's (AEP Ohio or the Company) Application and addresses the concerns raised by the Staff of the Public Utilities Commission of Ohio (Staff) in the Staff's audit of AEP Ohio's Distribution Investment Rider (DIR). As described in Staff's Initial Brief, the Stipulation between AEP Ohio and the Staff is reasonable and meets the Commission's three-part test for approval of stipulations. It should be adopted by this Commission. Below are Staff's responses to arguments made by the Ohio Consumers' Counsel (OCC) in their initial brief.

DISCUSSION

OCC argues that the Stipulation: (1) inappropriately addresses incentive payments; (2) inappropriately includes capital spares; (3) creates an improper policy regarding the capitalization of vegetation management costs for tree removal; and (4) unreasonably continues a DIR program when AEP Ohio's reliability performance has suffered. OCC's arguments are misguided and should be disregarded.

I. The Stipulation appropriately addresses incentive payments.

The Signatory Parties agreed that the auditor's recommendation that certain cost elements associated with incentive compensation be removed from the DIR should be addressed in AEP Ohio's upcoming rate case.[1] OCC argues that the Stipulation fails to address incentive compensation.[2] As stated in Staff's Initial Brief, it is premature to address the incentive-payment issue in this case because the Commission has already decided that this issue is best addressed in the next AEP rate case. The Commission-approved Stipulation from prior AEP Ohio DIR audits, Case Nos. 14-255-EL-RDR, 15-66-EL-RDR and 16-21-EL-RDR, which OCC did not oppose, stated that the issue of incentive payments would be better addressed as part of the base distribution case to be filed by June 2020.[3] Agreeing to follow the Commission's previous order and address the issue in the rate case is appropriate for this settlement. OCC's argument should be rejected.

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[1] Joint Ex. 1 (Stipulation and Recommendation) at 8.

[2] OCC Initial Brief at 22.

[3] Joint Ex. 1 (Stipulation and Recommendation) at 8.

II. The Stipulation appropriately addresses capital spares.

The auditor recommended that the Company's inclusion of capital spares in the DIR be given further review. AEP Ohio accepted that recommendation and the Stipulation provides that a further review by the next DIR auditor of the capital spares activity will be conducted in a future DIR audit.[4] This is appropriate. OCC argues that allowing AEP Ohio to charge consumers now through the DIR for spare equipment is improper because the equipment is not used and useful and unnecessary for infrastructure modernization.[5] Again, as stated in Staff's Initial Brief, the signatory parties appropriately agreed that the next audit will explore the propriety of the capital-spare issue. Since the Commission first approved AEP Ohio's DIR in 2012,[6] the DIR has been reviewed annually for accounting accuracy, prudency, and compliance. The DIR will continue to be reviewed annually and this issue will be explored as the auditor recommended. OCC will have the opportunity to explore the issue in the future audit when the review is more fully developed. Furthermore, at the hearing, OCC could not currently point to the amount of its alleged "excessive spend" on capital spares.[7] Therefore, OCC's argument should be rejected.

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4 *Id.* at 5.

5 OCC Ex. 1 (Hecker Direct) at 8.

6 *See, In re. Ohio Power Company*, Case No. 11-346-EL-SSO, et al., Opinion and Order at 47 (Aug. 8, 2012).

7 Tr. at 35-36.

III. The Stipulation provides certainty regarding AEP Ohio's vegetation management capitalization policy.

OCC argues the Stipulation's tree-removal policy creates an incentive for AEP Ohio to remove trees unnecessarily to earn a return on investment and makes it difficult to accurately audit AEP Ohio's vegetation management costs.[8] The Stipulation does change AEP Ohio's policy with respect to the capitalization of vegetation management costs for tree removal, but this accounting treatment will result in customers paying overall less for this activity.[9] OCC's witness Hecker also conceded at hearing that costs and customer rate impacts would actually be greater if the costs at issue were expensed rather than capitalized.[10]

The Stipulation overall provides certainty surrounding AEP Ohio's vegetation management capitalization policy. The Stipulation requires AEP Ohio to provide information that will permit the Commission to monitor and confirm that these expenditures are benefitting AEP Ohio customers by reducing outages caused by outside the right of-way tree failures.[11] The Stipulation also proposes a transition period where the policy's new rates would become effective with AEP Ohio next rate case.[12] This

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[8] OCC Ex. 1 (Hecker Direct) at 10.

[9] Staff Ex. 2 (McCarter Direct) at 4.

[10] Tr. at 36-37.

[11] Staff Ex. 2 (McCarter Direct) at 4.

[12] Joint Ex. 1 (Stipulation and Recommendation) at 8-9.

transition-period approach provides a reasonable resolution of a disputed issue regarding AEP Ohio's capitalization of tree removal costs.

This is an appropriate result for settlement of this case. OCC's arguments to the contrary should be rejected.

IV. The Stipulation provides commitments designed to favorably impact reliability.

OCC argues that the DIR overall is unreasonable because AEP Ohio's reliability performance standards have suffered.[13] As discussed by AEP Ohio witness Kratt, however, the Stipulation allows the Company to focus on reliability by performing necessary removal of outside of right-of-way (ROW) trees which has trended to be the number one cause of customer minutes of interruption in 2018.[14] Specifically, in the Stipulation, AEP Ohio commits to: (1) work collaboratively with Staff to update and coordinate the Company's danger tree program, including anticipated funding levels, to improve reliability for customers[15]; (2) provide baseline and additional data for outside ROW tree outages, including production, reliability, and resource utilization data, during the period between the date of the Stipulation and the date new rates become effective as a result of the Company's next rate case, which will demonstrate the reliability impacts of

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13 OCC Brief at 5-21.

14 AEP Ohio Ex. 2 (Kratt Supplemental) at 5, 8.

15 Joint Ex. 1 (Stipulation and Recommendation) at 10.

the Company's danger tree program[16]; and (3) achieve improvement in outside ROW tree outages based on danger tree removal work performed during and for two years after the transition period, as compared to the baseline outage data for the period prior to the transition period.[17] All of these activities are designed to drive a reduction in outages and improve the customer experience, which helps confirm the DIR investments continue to favorably impact reliability.

Furthermore, as Company witness Kratt explained, the Company has been experiencing an increase in outage minutes in its System Average Interruption Duration Index (SAIDI) caused by danger trees since 2013 and trees outside ROW were the number one cause of outages, in terms of duration, in 2018.[18] Trees outside ROW have become the leading cause of outages in the Company's service territory due in large part to the nature of the Company's service territory, which is much more heavily forested than other electric distribution utilities'.[19] As a result, the Company has more trees and vegetation that it must address to maintain reliability.[20] The Company's heavily forested service territory has been a growing issue with dead ash trees due to the outbreak of the

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[16] *Id.* at 9-10.

[17] *Id.* at 10.

[18] AEP Ohio Ex. 2 (Kratt Supplemental) at 4-5.

[19] *Id.* at 5-6.

[20] *Id.*

Emerald Ash Borer beginning in 2013.[21] The Company created a danger tree program in 2018 to remediate such trees and has spent approximately $14.1 million on the danger tree program in 2018, and it projects that it will spend up to $50 million on the program in 2019.[22] The Company's increased spending on danger tree removal has already resulted in a SAIDI improvement of approximately 4 minutes attributable to trees outside ROW as of July 2019.[23] AEP Ohio's pledges to reducing tree outside ROW-caused outages and improving reliability through the commitments in the Stipulation benefit customers and the public interest.

This is an appropriate result for settlement of this case that provides certainty for the future of AEP Ohio's reliability. OCC's argument should be rejected.

CONCLUSION

The Stipulation meets all prongs of the three-part test. OCC's arguments to the contrary should be rejected. The Commission should adopt the Stipulation as its order in this case.

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21 *Id.* at 6.

22 *Id.* at 7.

23 *Id.*

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the **Reply Brief** submitted on behalf of the Staff of the Public Utilities Commission of Ohio has been served upon the below-named counsel via electronic mail, this 24th day of October, 2019.

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