July 20, 2020

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215

RE: *In the matter of the Application of Ohio Power Company to Update the Energy Efficiency and Peak Demand Reduction Rider*

Enclosed please find the Staff's Review and Recommendations regarding the application filed by Ohio Power Company, to recover costs associated with its Demand Side Management and Energy Efficiency Riders, in Case No. 18-0874-EL-RDR.

Kristin B DuPreé

Kristin DuPreé
Grid Modernization & Retail Markets

Ohio Power
Energy Efficiency and Peak Demand Reduction Rider (Rider EE-PDR)
Case No. 18-874-EL-RDR

OVERVIEW

On May 15, 2018, Ohio Power (OP or the Company) filed Case No. 18-874-EL-RDR requesting approval to adjust its Energy Efficiency and Peak Demand Reduction Rider (Rider EE-PDR) rate in order to recover costs related to statutory energy efficiency mandates. The amount Ohio Power seeks to recover includes 2017 actual program and capital costs, 2018 through 2020 forecasted program costs, capital costs, shared savings incentives, and other costs.

STAFF REVIEW

Staff audited the revenues and expenses associated with the Company's Rider EE-PDR to verify that incurred costs were prudent, eligible for recovery, and truly incremental to base rates. Staff also examined filed schedules for accuracy, completeness, occurrence, presentation, valuation and allocation. Staff conducted this audit through a combination of document reviews, interviews, and interrogatories and requested documentation as needed until it was either satisfied that the costs were substantiated or concluded that an adjustment was warranted.

During its review, Staff identified operation and maintenance (O&M) expenses totaling $279,525 that should be deducted from the proposed Rider EE-PDR cost recovery amount. The following generally describe Staff's recommended adjustments.

Incentives

Staff discovered, within Rider EE-PDR, expenses related to incentive pay, stock-based compensation, and restricted stock units that were linked to the financial performance of the Company or were not related to distribution service. Consistent with past practices, Staff does not support the recovery of financial incentives,[1] based upon a utility company's financial goals, being passed on to its ratepayers.[2] In the Finding and Order in Case Nos. 16-664-EL-RDR and 17-781-EL-RDR, the Commission agreed with Staff's position.[3]

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[1] Financial incentives include but may not be limited to: performance awards, restricted stock units, executive incentives, earnings per share, shareholder returns, stock purchases, company earnings, and/or any other financially motivated incentives tied to the Company's bottom line and/or meeting shareholder interests.

[2] *See, e.g., In the Matter of the Application of Duke Energy Ohio, Inc. for Recovery of Program Costs, Lost Distribution Revenue, and Performance Incentives Related to Its Energy Efficiency and Demand Response Programs,* Case No. 15-534-EL-RDR, Staff Review and Recommendations (June 23, 2016).

[3] *In the Matter of the Application of Duke Energy Ohio, Inc. for Recovery of Program Costs, Lost Distribution Revenue, and Performance Incentives Related to Its Energy Efficiency and Demand Response Programs*, Case Nos. 16-664-EL-RDR and 17-781-EL-RDR, Opinion and Order at 6 (May 15, 2019).

Staff requested information from OP regarding its employee incentive plans in order to trace, verify, and separate employee pay incentives by non-financial and financial goals. During this review, Staff found that within both the American Electric Power (AEP) Annual Incentive Compensation Plan (AICP) and the Operating Company Incentive Compensation Plan (OP-ICP), there were employee bonus/pay incentives that were tied to the Company's bottom line, generation, and/or not related to distribution service, which are not appropriate for recovery. The OP-ICP is funded and relies upon the results of AEP's AICP, which is largely related to the financial performance of AEP Corporate and incentive goals not attributable to distribution service. Within OP's ICP program, staff found metrics/goals that related to annual performance objectives and/or the Company's bottom line.

Regarding restricted stock and other stock based compensation plans, Staff found that these programs promote and are inherently tied to the achievement of annual financial performance objectives and the Company's bottom line.

As a result of this review, Staff identified and disallowed incentive pay that was related to non-financial goals or the goals that were tied to generation or not related to distribution service. Staff therefore recommends a deduction from the Company's proposed cost recovery, in the amount of $167,019 which is comprised of $136,558 for incentives, $25,987 for stock-based compensation, and $4,474 for restricted stock units.

Meals, Snacks, Entertainment, and Drinks

Staff identified various employee expense transactions for meals, food, entertainment, and drinks. The Company's supporting documentation indicated that expenses for team dinners, food for internal business meetings, and food and refreshments for other occasions were included in the rider. These expenses appeared to be repetitious, excessive and not beneficial to Ohio's ratepayers. Staffs view is that these items are costs that should be borne by the Company or its employees and not by its ratepayers. Staff therefore recommends that meals, snacks and drinks totaling $38,249 be deducted from the proposed cost recovery amount.

Sponsorships

Staff identified expenses in Rider EE-PDR that were related to sponsorships. Similar to promotional advertising, sponsorships are generally not recoverable in riders or base rate cases.[4] Staff recommends that these amounts totaling $15,000 be deducted from the proposed cost recovery amount.

Miscellaneous Expense Charges

Staff identified various expense transactions for gifts, costumes, membership dues, association fees, conferences, zoo tickets, and other miscellaneous items. It was found that

[4] *In the Matter of the Application of Duke Energy Ohio, Inc. for Recovery of Program Costs, Lost Distribution Revenue, and Performance Incentives Related to Its Energy Efficiency and Demand Response Programs*, Case Nos. 16-664-EL-RDR and 17-781-EL-RDR, Opinion and Order (May 15, 2019).

these expenses were not sufficiently beneficial to Ohio's ratepayers and or considered non-incremental. Additionally, Staff's view is that many of these items are costs that should be borne by the Company or its employees and not by its ratepayers. Therefore, Staff recommends that these miscellaneous expenses totaling $59,257 be deducted from the proposed cost recovery amount.

Shared Savings Review

Staff has reviewed the calculations for the revenue collected through Rider EE-PDR for the Companies' 2017 shared savings and determined that those calculations appear to be appropriate. Staff notes though, that while the costs to implement the energy efficiency program are subject to this audit, the net benefits included in the calculation have not yet been verified through the Commission's EM&V review process and are subject to further review. Staff therefore recommends that any approval given by the Commission for the Company to adjust its Rider EE-PDR rate be subject to further review and adjustment, as deemed necessary by the Commission in Case 19-0002-EL-UNC or any subsequent proceedings in which estimated costs are trued-up with actual costs and impacts of the EM&V process are considered.

CONCLUSIONS

Staff has completed its audit of OP's Rider EE-PDR in Case No. 18-874-EL-RDR and recommends to the Commission the following:

First, Staff recommends that the Company's request for recovery be approved, and that Staff's adjustment of $279,525, plus applicable carrying charges, be deducted from the revenue requirement in the Company's next Rider EE-PDR case.

Finally, Staff recommends that any approval given by the Commission for the Company to adjust its Rider EE-PDR rate, be subject to further review and potential cost adjustment as deemed necessary in subsequent proceedings in which impacts of the EM&V process, are considered.