BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Power Company for an Increase in Electric Distribution Rates.	) Case No. 20-585-EL-AIR
In the Matter of the Application of Ohio Power Company for Tariff Approval	) Case No. 20-586-EL-ATA
In the Matter of the Application of Ohio Power Company for Approval to Change Accounting Methods.	) Case No. 20-587-EL-AAM

OBJECTIONS TO THE STAFF REPORT OF INVESTIGATION OF OHIO PARTNERS FOR AFFORDABLE ENERGY AND SUMMARY OF MAJOR ISSUES

INTRODUCTION

Ohio Partners for Affordable Energy ("OPAE"), a party to the above-captioned cases, hereby submits these objections to the Staff Report of Investigation ("Staff Report"), and a summary of major issues in these cases. The Staff Report was originally filed with the Public Utilities Commission of Ohio ("Commission") on November 18, 2020, with an amended Staff Report, which corrected clerical errors in a number of schedules, on November 25, 2020, in these matters concerning the applications of Ohio Power Company ("AEP") for an increase in electric distribution rates, for tariff approval, and for approval to change accounting methods.[1] AEP filed the Prefiling-Notice of the intent to increase electric distribution rates on April 29, 2020, and the Application on June 1, 2020.

OPAE submits the following objections to the Staff Report.

[1] All citations are to the Staff Report filed on November 25, 2020.

OBJECTIONS

I. OPAE objects to the Staff Report recommendation that AEP's revenue increase be in the range from $237.23 million to $257.7 million (a range of 36% to 39% increase in base rate revenues). Staff Report at 58, Schedule A-1, Page 1 of 1.

The Staff Report recommends a revenue increase from 36% at the lower bound and 39% increase at the upper bound over test year operating revenue. Staff Report at 58. This revenue increase is excessive given that it is based on inordinate rates of return and costs of common equity. Overstated valuations of property that is used and useful in rendering public utility service exacerbates the situation. It is also based on costs that are not correctly attributed to the cost of rendering public utility service during the test period.

II. OPAE objects to the Staff Recommendation that the rate of return be set in the range of 7.15% to 7.70% and the cost of common equity set at a range of 8.76% to 9.78% because these ranges provide an excessive return when compared to the risk faced by AEP as a provider of monopoly electric distribution service. Staff Report at 24, 26.

The Staff Report fails to quantify the level of reduction of the rate of return that is appropriate given the reduced risk to AEP, as a provider of monopoly electric distribution service and as a recipient of cost recovery through various riders, and is therefore not just and reasonable. In AEP's case, the risk associated with generation investments, which have significant capital costs and face a volatile market, are no longer a component of regulated rates. In addition, the vast majority of the Company's capital investments are collected through riders that recover projected annual costs, further reducing the cost of capital and virtually eliminating risks of recovery compared to traditional delayed recovery of capital expenditures through a rate case. The Staff Report errs in not reducing the rate of return and cost of common equity sufficiently to reflect the minimal risk faced by AEP for purposes of establishing a return on its investment to provide monopoly electric distribution service. Moreover, AEP's financial and business risks are even lower given the Staff Report's adoption of an increased customer charge, adoption of fixed charge riders, and inclusion of a decoupling mechanism that essentially guarantees recovery of the revenue requirement. All reduce the financial and business risks to AEP in providing electric distribution service compared to traditional ratemaking approaches.

The distribution cost recovery riders, such as AEP's gridSMART Rider, Economic Development Recovery Rider, Distribution Investment Rider ("DIR"), and Enhanced Service Reliability Rider ("ESRR"), eliminate the risk of recovery for certain costs associated with the electric distribution system. Ohio's new regulatory paradigm treats the recovery of certain costs as an entitlement, and the riders and high customer charges are designed to guarantee recovery of that entitlement. The icing on the cake is that the Pilot Throughput Balancing Adjustment Rider ("PTBAR"), a decoupling mechanism designed to prevent revenue erosion resulting from Demand Side Management ("DSM") programs, is retained, providing AEP with a virtual guarantee of recovery the revenue requirement.

As a result, the distribution utility faces little risk, as opposed to the traditional regulatory compact that had a risk premium because utilities were only provided with the opportunity to recover their costs, not guaranteed cost recovery. Because the new regulatory regime guarantees recovery of certain costs, there should be a significant reduction in the allowed rate of return, along with a downward adjustment in the cost of common equity to reflect the assured recovery of various costs through riders and customer charges.

III. OPAE objects to the failure of the Staff Report to approve a mechanism to recover costs associated with serving shopping customers, which is a subsidy to Competitive Retail Electric Suppliers ("CRES"). Staff Report at 31.

The Staff Report rejects AEP's proposal to implement a Retail Reconciliation Rider and an SSO Credit Rider. Staff Report at 31. The Staff Report notes that "the Company has identified two quantifiable CRES costs of provider support labor costs and IT costs. Id. In order for rates to be just and reasonable, it is inappropriate for customers choosing default service, which as Staff notes is "available to all customers and required by electric distribution companies to provide", to subsidize CRES providers. Id. It is just and reasonable for all customers to shoulder the modest costs of the SSO bidding process. Under the principal of cost causation, CRES should be responsible for identifiable and quantifiable costs incurred by AEP that allow them to do business, and failure to do so is unjust and unreasonable.

IV. OPAE objects to the Staff Report's increases in customer charges. Staff Report at 41.

The Staff Report recommends a residential customer charge of $8.11, a slight reduction from the current customer charge of $8.40, and significantly lower than the $14 requested by AEP. Staff Report at 41. However, the calculation in the Staff Report "supports a $6.01 residential customer charge." Staff Report at 41. Staff goes on to say that "the minimally compensatory approach to calculate customer charges be maintained in this case." Id. The just and reasonable charge is the level calculated by Staff, not the level endorsed by Staff.

Excessive customer charges – those that incorporate costs beyond those included in the Staff calculation -- have a number of negative impacts. Fixed charges are regressive in nature in that they incorporate variable costs into a fixed charge, thus resulting in unjust and unreasonable bills for low users; most low-income customers use less than the average customer. Excessive customer charges also serve as a barrier to energy efficiency and renewable energy investments because they increase the cost-effectiveness and payback of these technologies. Utilities have used excessive customer charges to erect financial barriers to the installation of customer-sited renewable energy systems, and to thwart investments in energy efficiency. This is inconsistent with the policies adopted by the Ohio General Assembly in O.R.C. 4928.02, and is unjust and unreasonable.

V. OPAE objects to the failure of the Staff Report to reject riders that are fixed charges or based on percentages of base distribution revenue. Staff Report at 40-41.

Fixed rider charges are backdoor increases in the customer charge and are unjust and unreasonable. Charges should be a function of usage, designed to recover the costs a customer places on the system. Distribution investments, beyond direct customer service charges, have traditionally been volumetric charges. AEP has a number of riders that are fixed charges which it proposes to continue:

- Economic Development Cost Recovery Rider;
- Enhanced Service Reliability Rider;
- gridSMART Phase 2 Rider;
- Distribution Investment Rider;
- Storm Damage Recovery Rider; and,
- Legacy Generation Resource Rider – Parts A & B.

The combination of these riders and the current customer charge require customers to pay an effective customer charge of $12.10 at the end of August 2020 to be connected to the system. Staff Report at 41. This is unjust and unreasonable. Riders for services not included in Table 9 should be volumetric. Staff Report at 40.

VI. OPAE objects to the failure of the Staff Report eliminate the Distribution Investment Rider ("DIR") and the Enhanced Service Reliability Rider ("ESRR"). Staff Report at 11-13 and 29-30.

AEP collects significant amounts of the cost of distribution services – capital expenditures, tree trimming, etc. – through fixed-charge riders, specifically the ESRR and the DIR, which are set to recover a projected level of expenditures and are trued up on a regular basis. The Staff Report does not justify the continuation of these riders. It shows no savings to customers from this approach to recovering capital investments and expenses that would justify departing from traditional regulatory practices, and is therefore unjust and unreasonable. Distribution system costs should be recovered through base rates.

VII. OPAE objects to the failure of the Staff Report to endorse DSM program as proposed by AEP. Staff Report at 20.

The Staff Report declines to approve the voluntary DSM program proposed by AEP, though the report notes that "Staff is generally supportive of energy efficiency and demand side management programs that furthers state policies as defined in R.C. 4928.02." Staff Report at 21. Staff objects to AEP's proposal to put funding in base rates, indicating that it "puts unnecessary risk on rate payers…." Id. The two reasons listed include: 1) the Company *might* not spend all the allocated funds and there *might* be no mechanism to return the unspent funds to ratepayers, and 2) legislative uncertainty surrounding the potential repeal of HB 6. The Staff Report also cites what it views as other defects in the plan.

The Staff position that customers should be denied access to the most cost-effective approach to providing electric service is in itself unjust and unreasonable. The Staff Report ignores the requirements of O.R.C. 4905.70:

> The public utilities commission shall initiate programs that will promote and encourage conservation of energy and a reduction in the growth rate of energy consumption, promote economic efficiencies and take into account long-run incremental costs.

DSM is not an option, it is a requirement despite HB 6, and the flaws identified in the Staff Report are not insurmountable. The Staff Report should reflect current law. There are no mandates that a utility must achieve, but there is a requirement that utilities offer energy conservation programs. Failure to support some type of DSM program is unjust and unreasonable.

VIII. OPAE objects to the failure of the Staff Report to eliminate the Pilot Throughput Balancing Adjustment Rider ("PTBAR"). Staff Report at 29.

AEP proposes to continue and expand the reach of the PTBAR, which Staff supports. However, because Staff opposes the proposed voluntary DSM, it is unjust and unreasonable to continue the Rider. As noted by the Commission in the Opinion and Order in Case No. 13-2385-EL-SSO, "the PTBAR is intended to compensate the Company for the loss of load associated with EE/PDR programs. Opinion and Order at 68. The PTBAR is not being used for that purpose any longer because the are no longer statutorily-required EE/PDR programs and the Staff does not endorse a voluntary DSM program. Continuing the Rider is no longer justified and to do so is unjust and unreasonable.

IX. OPAE objects to the Staff Report's support for the implementation of delayed payment charge. Staff Report at 28.

The inclusion of a new late payment fee is unjust and unreasonable. The Staff Report and the Company's supporting testimony indicates that the intent of the fee is to incentivize customers to pay on time, yet neither the Staff nor the Company provides any evidence to support the contention that such a fee would actually result in improved payment behavior. The shortfall in factoring revenue is likewise no justification for such a fee.

X. OPAE objects to the inclusion of factoring expenses in base rates and in the bad debt rider. Staff Report at 30.

AEP chooses to use factoring to convert bills into revenue prior to customer payments. This is a choice that AEP has made, not its customers. Compensating a utility for this choice equates to an unnecessary rate increase for customers. The inclusion of factoring expenses in base rates and in the bad debt rider, to recover increases in factoring expense above the level included in base rates, is unjust and unreasonable. For example, it is unlikely that the compensation for lost revenue due to factoring included in rate base will not reflect the large increase in late payments because of the COVID-19 pandemic. This will result in a drastic increase in the Bad Debt Rider in the coming year when it is adjusted. Not only is it unjust and unreasonable to increase customer bills because AEP has chosen to use factoring, but the cost will be recovered twice since AEP is compensated for bad debt and also for the cashflow impact of bad debt. There should be a reasonable spreading of risk between customers and the Company and double recovery of costs should not be allowed.

XI. OPAE objects to the failure of the Staff Report to establish reconnect charge at meter fees for customers served with AMI that are cost-based. Staff Report at 33.

The Staff Report recalculates the reconnect charge at meter, reducing the charge to $23 rather than the $27 proposed by the Company. However, it justifies this by using the same 63% AMI credit proposed by AEP. The credit is an imprecise mechanism and it is not based on the actual cost of reconnecting a customer with AMI meter. Customers are paying dearly for AMI meters. One of the benefits of AMI is the ability to remotely reconnect customers. This may cost far less than $27 or $23; it should, but no data is provided that would justify any level of cost for the service. Using the pre-AMI cost as a base and discounting it is an unjust and unreasonable approach to setting what should be a cost-based rate.

MAJOR ISSUES

Pursuant to Revised Code Section 4903.083, OPAE proposes the following summary of major issues:

1. The appropriate level of revenues that AEP should be authorized to collect through rates;
2. The appropriate rate design and customer charges for residential customers;
3. The appropriate rate of return for ratemaking purposes;
4. The appropriate level of test-year revenues;
5. The appropriate level of operating and maintenance expenses;
6. The appropriate level of rate base;
7. The failure to include a DSM program as required by O.R.C. 4905.70;

8. The inappropriateness of including an electric vehicle (“EV”) program as a part of the proposed DSM program;

9. The failure to establish a reconnect fee specific to customers receiving service through an AMI;

10. The establishment of a late charge for residential customers; and,

11. The existence of distribution cost recovery riders that undermine the rate making process herein.

Respectfully submitted,

/s/ Robert Dove______________
Robert Dove (0092019)
Kegler Brown Hill + Ritter Co., L.P.A.
65 E State St., Ste. 1800
Columbus, OH 43215-4295
Office: (614) 462-5443
rdove@keglerbrown.com
(Willing to accept service by email)
Attorney for OPAE

CERTIFICATE OF SERVICE

I certify that this filing was filed electronically through the Docketing Information System of the Public Utilities Commission of Ohio on December 18, 2020. The PUCO's e-filing system will electronically serve notice of the filing of this document on the parties subscribed to these proceedings. Additionally, notice was provided to the parties listed below.

/s/ Robert Dove
Robert Dove

SERVICE LIST

stnourse@aep.com cmblend@aep.com werner.margard@ohioattorneygeneral.gov kyle.kern@ohioattorneygeneral.gov dborchers@bricker.com khernstein@bricker.com jspottswood@bricker.com whitt@whitt-sturtevant.com fykes@whitt-sturtevant.com ccox@elpc.org rkelter@elpc.org mpritchard@mcneeslaw.com rglover@mcneeslaw.com bethany.allen@igs.com dstinson@bricker.com mwarnock@bricker.com ktreadway@oneenergyllc.com mleppla@theOEC.org tdougherty@theOEC.org ctavenor@theOEC.org	joe.oliker@igs.com michael.nugent@igs.com angela.obrien@occ.ohio.gov christopher.healey@occ.ohio.gov mkurtz@bkllawfirm.com kboehm@bkllawfirm.com jkylercohn@bkllawfirm.com dparram@bricker.com rmains@bricker.com bojko@carpenterlipps.com paul@carpenterlipps.com cgrundmann@spilmanlaw.com dwilliamson@spilmanlaw.com mjsettineri@vorys.com glpetrucci@vorys.com dromig@armadapower.com little@litohio.com hogan@litohio.com mfleisher@dickinsonwright.com