**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Review of the Distribution Investment Rider Contained in the Tariffs of Ohio Power Company. | )  )  ) | Case No. 13-419-EL-RDR |

**COMMENTS**

**BY**

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**August 2, 2013**

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**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

|  |  |  |
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| In the Matter of the Review of the Distribution Investment Rider Contained in the Tariffs of Ohio Power Company. | )  )  ) | Case No. 13-0419-EL-RDR |

**COMMENTS**

**BY**

**THE OFFICE OF THE OHIO CONSUMERS’ COUNSEL**

# i. INTRODUCTION

This case involves a review of the Distribution Investment Rider (“DIR”) which allows Columbus Southern Power Company and Ohio Power Company (jointly “AEP Ohio” or “the Utility”) to charge its 1.2 million residential customers for infrastructure investments that improve service reliability. The DIR involves millions of dollars in costs that AEP Ohio wants approval to charge its customers.

This case rises out of the PUCO’s approval of AEP Ohio’s electric security plan (“ESP”), which established the DIR.[[1]](#footnote-2) Specifically, the DIR allows AEP Ohio to charge customers for a certain amount of capital costs associated with distribution infrastructure improvements that create a more reliable electric distribution system.[[2]](#footnote-3) The DIR is then subject to annual review for accounting accuracy, prudency, and compliance with the DIR plan.[[3]](#footnote-4)

In the ESP case, out of which the DIR was born, AEP Ohio was unable and/or unwilling to provide detail regarding how customers would obtain a benefit in service quality through the Utility’s expedited recovery of distribution investment costs.[[4]](#footnote-5) As a result, the PUCO explicitly required the Utility and the PUCO Staff **to quantify reliability improvements that are expected** as a result of the DIR funding.[[5]](#footnote-6) Furthermore, the Commission explicitly required the Utility and the PUCO Staff to focus DIR spending on where it will have the **greatest impact on maintaining and improving reliability**.[[6]](#footnote-7)

The Office of the Ohio Consumer’s Counsel (“OCC”) files these Comments[[7]](#footnote-8) to address the audit of the DIR and to propose additional adjustments that the Public Utilities Commission of Ohio (“PUCO” or “Commission”) should adopt in this case. OCC supports many of the recommendations outlined in the Compliance Audit of the 2012 Distribution Investment Rider (DIR) of Columbus Southern Power and Ohio Power Company, d/b/a AEP Ohio (“Final Audit Report”). The Final Audit Report was filed by Blue Ridge Consulting Services, Inc. (“Blue Ridge” or “Auditor”) on June 20, 2013 and is supported by the PUCO Staff. In addition, the PUCO should adopt the additional recommendations outlined below to protect AEP Ohio’s customers from costs that were not prudently incurred.

# II. COMMENTS

## A. The PUCO Staff’s Comments On Its Review Of Ohio Power Company’s 2012 Progress In Implementing Distribution Infrastructure Programs Are Inadequate And Fail To Address The Quantifiable Reliability Improvements That The Commission Mandated in the Electric Security Plan Proceeding.

The PUCO should require the PUCO Staff to conduct a more detailed review of AEP Ohio’s proactive efforts to increase the reliability of its distribution infrastructure. On June 20, 2013, the PUCO Staff filed Comments that set forth the Staff’s review of Ohio Power Company’s 2012 Progress Implementing Distribution Infrastructure Programs. In those Comments, the PUCO Staff concluded that, “AEP Ohio met expectations for increasing 2012 proactive/reliability DIR expenditures over comparable expenditures in the prior three years.”[[8]](#footnote-9) However, in reaching this conclusion, the PUCO Staff merely compared the dollar amounts of investments designated “proactive/

reliability” to the total amount of DIR expenditures.[[9]](#footnote-10) There is no indication (in the PUCO Staff’s Comments) that the PUCO Staff did any detailed review or analysis of the expenditures in order to ensure that the spending and programs were consistent with the intent of the DIR Program -- to improve service reliability. Instead, an in-depth review and analysis of the expenditures included in the DIR is necessary to ensure that those expenditures had a quantifiable benefit and that DIR spending was focused on areas that had the greatest impact on maintaining and improving reliabilityas outlined by the PUCO in the ESP Opinion and Order.[[10]](#footnote-11)

The PUCO Staff filed Comments regarding its review of the 2012 DIR expenditures to “determine whether AEP Ohio is spending more on proactive infrastructure programs and those that are expected to have a positive impact on reliability.”[[11]](#footnote-12)But neither of these requirements were addressed by the PUCO Staff in its review of the 2012 DIR program.

For example, the PUCO Staff found that AEP Ohio only invested $148,486,000; yet, AEP Ohio’s 2012 Annual System Improvement Plan[[12]](#footnote-13) reflected budget of over $206 million in distribution capital expenditures for reliability specific investments in 2012.[[13]](#footnote-14) Therefore, under the PUCO Staff’s analysis, AEP Ohio underspent by approximately 27% the amount it budgeted for reliability specific capital investments. But the PUCO Staff provided no detailed explanation of how it reached that calculation.

Moreover, the PUCO Staff found that out of that $148,486,000, AEP Ohio only spent approximately $37 million in **proactive**/reliability or approximately 25% of the total investment in reliability.[[14]](#footnote-15) And the PUCO Staff did not specifically identify the distribution investments that it considered “proactive.” In fact, PUCO Staff’s Comments make no mention of whether any of the DIR investments are expected to contribute to quantifiable improved reliability or more importantly if the investments actually resulted in improved reliability.[[15]](#footnote-16)

Because there is no affirmative demonstration that the DIR spending is proactively improving service reliability in a quantifiable manner, the DIR recovery should be limited to the 25% that the PUCO Staff identified. Without more detailed information, the PUCO cannot conclude that the other 75% of AEP Ohio’s investments under the DIR are proactively improving reliability. To the contrary, AEP Ohio has failed to comply with the mandated reliability performance standards for two years in a row -- the two years since the DIR was approved.[[16]](#footnote-17) Instead, the PUCO should direct the PUCO Staff and AEP Ohio to conduct an analysis similar to what it is required to conduct for the 2013 DIR Work Plan as explained below.

As part of its 2013 DIR Work Plan, AEP Ohio provided very little detail regarding the twenty-seven different programs valued at approximately $187 million and provided no specific projections of the reliability improvements that could be expected.[[17]](#footnote-18) The PUCO found that AEP Ohio’s 2013 DIR Work Plan contained insufficient detail because it “does not quantify, for many of the components, the reliability improvements that are expected to occur through the DIR investments, nor does it address the issue of double recovery or demonstrate that DIR spending levels will exceed AEP Ohio’s capital spending levels in recent years.”[[18]](#footnote-19) To address the inadequacy of AEP Ohio’s 2013 DIR Work Plan, the PUCO directed AEP Ohio to:

quantify actual reliability improvements achieved for any program that is expected to reduce the frequency and/or duration of outages. For any program that is expected to maintain reliability, AEP Ohio is directed to quantify the outages avoided by implementation of the DIR plan in 2013. AEP Ohio shall provide this information to Staff in writing by February 28, 2014.[[19]](#footnote-20)

The PUCO Staff’s review and treatment of the DIR investments, requested in this proceeding, should be no different than what the PUCO requires for the 2013 review as described in Finding and Order quoted in the preceding paragraph. The PUCO should require AEP Ohio to file a report within 30 days of an Order from this case that quantifies the reliability improvements that occurred as a result of this DIR proceeding. Furthermore, the Commission should require the PUCO Staff to identify each “proactive reliability” program and to describe how the program contributes to improved reliability to assist in tracking progress on a going forward basis.

## B. Comments on the Audit Report

As explained in more detail below, OCC supports Blue Ridge’s recommendations. However, as explained further below, the recommendations in the Blue Ride Audit Report do not go far enough to protect AEP Ohio’s customers. For example, there should be an allocation between jurisdictional and non-jurisdictional plant, the amount of first quarter gridSMART expenses should be corrected, and there should be an exclusion for land held for future use from net plant. Commercial activities tax and uncollectibles should be removed from the proposed carrying charge rate so that customers do not pay twice for those amounts. The PUCO should establish an over/under revenue tracker in order to true up DIR recoveries from one year to the next.

OCC also recommends that only 25% of the 2012 distribution plant additions should be included in the DIR for cost recovery in this case because the Utility failed to demonstrate that the DIR expenditures will actually improve reliability in a quantifiable manner as required by the PUCO Order establishing the DIR mechanism.[[20]](#footnote-21) Some of the remaining 75% of those costs could be recovered through a distribution rate case if any of those costs are found to be prudent, just and reasonable. Finally, the PUCO should require its Staff to conduct a more thorough review of the reliability investments that AEP Ohio is seeking to recover in this proceeding.

### 1. Net plant in service should exclude non-jurisdictional plant.

A review of AEP Ohio’s most recent base rate case (Case No. 11-352-EL-AIR) indicates that some of Ohio Power’s plant was allocated to non-jurisdictional customers.[[21]](#footnote-22) Ohio Power Company and Staff Report Schedules B-2 show that 99.90% of distribution plant is allocated to Ohio jurisdictional.[[22]](#footnote-23) However, AEP Ohio computes DIR net plant by subtracting the Staff’s adjusted jurisdictional net plant ($2,092,752,000)

from total Utility net plant for each of 2012 quarterly filings.[[23]](#footnote-24) The Utility calculation allows the recovery of non-jurisdictional plant in the DIR revenue requirement.  Accordingly, all non-jurisdictional net plant should be excluded from the calculation of DIR revenue requirement in this proceeding. The impact of OCC’s recommendation is set forth on attached Schedule 2, which shows the calculation of the jurisdictional plant-in-service allocation factor that should be used. Attached Schedule 3 sets forth the calculation of jurisdictional depreciation reserve allocation factor.

### 2. $15,788,966 should be used for the amount of gridSMART net plant for the 1st Quarter of the 2012 DIR revenue requirement calculation.

  AEP Ohio’s initial DIR filing included an incorrect amount for gridSMART net plant of $7,909,386.[[24]](#footnote-25) The use of this incorrect amount overstates the DIR revenue requirement for the first quarter. The corrected amount of gridSMART net plant of $15,788,966[[25]](#footnote-26) should be used in the calculation of the DIR revenue requirement as set forth in attached Schedule 1.

### 3. All gridSMART spending that is collected from customers through the gridSMART rider must be excluded from the DIR rider.

  In the ESP Order, the PUCO indicated that any gridSMART spending that is recovered through the gridSMART Rider should be excluded from recovery in the DIR rider.[[26]](#footnote-27) Blue Ridge noted that at some point in time, it expected AEP Ohio to book the $46.6 -$47.3 million to plant in service. At that time, Blue Ridge recommended that the Utility reconcile the difference between the actual amount spent/reimbursed by the Department of Energy and the amount excluded from the DIR.[[27]](#footnote-28) OCC agrees with Blue Ridge’s recommendation. Additionally, the PUCO should require AEP Ohio to reconcile its next DIR filing to reflect the proper amount of girdSMART plant to be excluded from the DIR.

  Furthermore, Blue Ridge noted that FERC Account 37016 was charged $15.2 million for AMI meters.[[28]](#footnote-29) Blue Ridge was unable to conclude that all gridSMART meters had been excluded from the DIR.[[29]](#footnote-30) As a result, Blue Ridge recommended that AEP Ohio address this concern and identify the correct amount of gridSMART to be excluded in order to avoid any double recovery.[[30]](#footnote-31) The PUCO should require the protections necessary to ensure that all gridSMART spending that is recovered through the gridSMART Rider is excluded from the DIR.

### 4. Net plant in service should include $21,513,289 for the amount of Veg. Mgmt. net plant for the 1st Quarter of 2012 DIR revenue requirement calculation.

  AEP Ohio’s initial DIR filing included an incorrect amount for Veg. Mgmt. net plant of $13,897,570.[[31]](#footnote-32) The use of this incorrect amount overstates the DIR revenue requirement for the first quarter. The corrected amount of Veg. Mgmt. net plant of $21,513,289[[32]](#footnote-33) should be used in calculating the DIR revenue requirement.

### 5. Net plant in service should exclude $283,000 for land held for future use that was disallowed in the last distribution rate case.

AEP Ohio’s computation of the DIR plant included land[[33]](#footnote-34) that was disallowed in the Utility’s most recent distribution rate case.[[34]](#footnote-35) Inasmuch as the PUCO has already determined that this land should not be included for cost recovery in a rate case, it should not be included as part of the DIR recovery. The PUCO Staff's recommended land exclusion should be reflected in the calculation of DIR revenue requirement as set forth in attached Schedule 2.

### 6. The carrying charge rate should exclude the Commercial Activity Tax (CAT) to prevent double recovery.

In calculating the carrying charge for the DIR, AEP Ohio included four components: pretax weighted average cost of capital; weighted average property tax expense; Commercial Activity Tax (“CAT”) and depreciation rate.[[35]](#footnote-36) However, AEP Ohio’s computation of its carrying charge rate of 20.59% includes the CAT, which was previously imbedded in the rate, thus causing a double recovery of the CAT. AEP Ohio should be prohibited from twice collecting carrying charges (on the amount of CAT) from its customers. Accordingly, the CAT should be excluded from the calculation of the carrying charge rate for the DIR as set forth in attached Schedule 4.

### 7. The carrying charge rate should not include the uncollectible accounts expense.

AEP Ohio’s computation of the carrying charge rate of 20.59% also includes a recovery of the uncollectible accounts expense that was not approved for collection from customers by the PUCO. A review of the ESP Opinion and Order indicates that that there was no authorization to include the uncollectible account in the calculation of carrying costs.[[36]](#footnote-37) Accordingly, the uncollectible accounts expense should be excluded as set forth in attached Schedule 4.

### 8. The weighted average cost of capital should be used to compute the carrying charge rate.

 As part of the audit, Blue Ridge recommended that the weighted average cost of capital be used to compute the carrying charge rate.[[37]](#footnote-38) OCC agrees with the Blue Ridge. The PUCO should authorize a carrying charge rate of 20.28% for the DIR revenue requirement calculation as set forth in attached Schedule 4.

### 9. The Over/Under revenue recovery calculation should reflect OCC’s adjustments.

Blue Ridge recommended that an over/under revenue adjustment be included as part of review of the DIR program in 2013.[[38]](#footnote-39) AEP Ohio computes over/under revenue recovery by calculating a total DIR revenue requirement for each month and dividing it by twelve and then comparing that amount to the actual DIR revenue billed.[[39]](#footnote-40) It is unknown how AEP Ohio calculated the total DIR revenue requirement amount. AEP Ohio did not provide any supporting work papers to show the basis of its monthly revenue requirement amount. Also the amount of the total monthly revenue requirement amounts vary each month and do not match with AEP Ohio DIR revenue requirement amounts included in the Utility’s DIR quarterly filing.

In order to protect AEP Ohio’s customers from unreasonable charges, the over/under revenue recovery calculation should be based on the revenue requirement approved for each quarter and the actual DIR revenue billed as set forth in attached Schedule 5. Additionally, OCC also agrees with the Blue Ridge recommendation that a tracker for over/under recovery should be done annually to reconcile the difference between the DIR approved revenue requirement and the actual DIR revenue billed.  OCC recommends that a true-up adjustment should be included in the AEP July 1, 2013 DIR filing that will be effective on September 1, 2013 to reflect a true-up adjustment and the impact of the adjustments included in these Comments.  The requested DIR rate of 12.22994%, included in the July 1, 2013 DIR filing,[[40]](#footnote-41) should be adjusted down to reflect the recommendation made by Blue Ridge and OCC as set forth in attached Schedule 1 for a tentative calculation of a DIR rate of 11.23457% to be effective September 1, 2013. The DIR rate of 11.23457 % reflects an estimated over-recovery of $196,566 that needs to be offset in the July 1, 2013 DIR Revenue Requirement request in order to prevent an over-collection from AEP Ohio’s customers. OCC recommends that the estimated $196,566 be updated to reflect the actual DIR revenues billed through August 2012.

# III. CONCLUSION

OCC appreciates the opportunity to provide these Comments in order to assist the PUCO in its annual review of AEP Ohio’s DIR. The PUCO’s adoption of the recommendations set forth in the Blue Ridge Audit Report as well as the additional recommendations proposed by OCC are necessary to protect AEP Ohio’s customers from unreasonable charges. Additionally, AEP Ohio customers should not be required to pay for infrastructure that does not create a more reliable electric distribution system. For these reasons, a more detailed review of AEP Ohio’s proactive efforts to increase the reliability of its distribution infrastructure is warranted.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a true and correct copy of the foregoing Comments have been served upon the below-named persons via electronic service this 2nd day of August, 2013.

*/s/ Joseph P. Serio*

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1. *In the Matter of the Applications of Ohio Power Company for Authority to Establish a Standard Service Offers Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan* (“*ESP II*”), Case No. 11-346-EL-SSO, Opinion and Order at 47 (August 8, 2012). [↑](#footnote-ref-2)
2. Id. at 42. [↑](#footnote-ref-3)
3. Id. at 47. [↑](#footnote-ref-4)
4. Id. at 44. [↑](#footnote-ref-5)
5. Id. at 47 (Emphasis added). [↑](#footnote-ref-6)
6. Id. (Emphasis added). [↑](#footnote-ref-7)
7. AEP Ohio and other intervenors are permitted to file initial comments by August 2, 2013 and reply comments by August 16, 2013. Entry at 2 (June 26, 2013). [↑](#footnote-ref-8)
8. Comments Submitted on Behalf of the Staff of The Public Utilities Commission of Ohio – Review of Ohio Power Company’s 2012 Progress Implementing Distribution Infrastructure Programs (“PUCO Staff Reliability Comments”) at 7 (June 20, 2013). [↑](#footnote-ref-9)
9. Id. at 7. [↑](#footnote-ref-10)
10. *ESP II*, Case No. 11-346-EL-SSO, Opinion and Order at 47; Entry on Rehearing at 47 (January 30, 2013). [↑](#footnote-ref-11)
11. PUCO Staff Reliability Comments at 2. [↑](#footnote-ref-12)
12. Ohio Adm. Code 4901:1-10-26(B)(3)(d). [↑](#footnote-ref-13)
13. *In the Matter of the Annual Report of Ohio Power Company Pursuant to Rule 26 of the Electric Service and Safety Standards, Ohio Administrative Code 4901:1-10-26*, Case No. 13-996-EL-ESS, Annual Investment Report at 57 (March 28, 2013). [↑](#footnote-ref-14)
14. PUCO Staff Reliability Comments at 3 (Emphasis added). [↑](#footnote-ref-15)
15. *See generally,* Id. [↑](#footnote-ref-16)
16. *In the Matter of the Annual Report of [sic] Pursuant to Rule 10 of the Electric Service and Safety Standards, Ohio Administrative Code 4901:1-10-10*, Annual Report of the Columbus Southern Power Company at 2 (April 9, 2012); *In the Matter of the Annual Report of [sic] Pursuant to Rule 10 of the Electric Service and Safety Standards, Ohio Administrative Code 4901:1-10-10*, Annual Report of the Columbus Southern Power Company at 2 (April 1, 2013). [↑](#footnote-ref-17)
17. *In the Matter of the Commission’s Review of the Ohio Power Company’s Distribution Investment Rider Work Plan Resulting from Commission Case No. 11-346-EL-SSO et al.*, Case No. 12-3129-EL-UNC, OCC Initial Comments at 13-14 (January 18, 2013). [↑](#footnote-ref-18)
18. In the Matter of the Commission’s Review of the Ohio Power Company’s Distribution Investment Rider Work Plan Resulting from Commission Case No. 11-346-EL-SSO et al., Case No. 12-3129-EL-UNC, Commission Finding and Order at 10 (May 29, 2013). [↑](#footnote-ref-19)
19. Id. at 11-12. [↑](#footnote-ref-20)
20. *ESP II*, Case No. 11-346-El-SSO, Opinion and Order at 47. [↑](#footnote-ref-21)
21. *In the Matter of the Application of Columbus Southern Power Company, Individually and, if Their Proposed Merger is Approved, as a Merged Company (collectively, AEP Ohio) for an Increase in Electric Distribution Rates* (“*AEP Ohio Rate Case*”), Case No. 11-352-EL-AIR, Ohio Power Company Schedule B-2, Staff Report Schedule B-2. [↑](#footnote-ref-22)
22. Id. [↑](#footnote-ref-23)
23. *ESP II*, Case No. 11-346-EL-SSO, AEP Ohio 1st Quarterly Filing 2012; *In the Matter of the Application of Ohio Power Company to Update its Distribution Investment Rider*, Case No. 12-2627-EL-RDR, 2nd Quarterly Filing 2012 (Nov. 16, 2012); 3rd Quarterly Filing 2012 (December 21, 2012); 4th Quarterly Filing 2012 (May 21, 2013) (collectively Attachment 1). [↑](#footnote-ref-24)
24. AEP Ohio 1st Quarterly Filing 2012 (Attachment 1). [↑](#footnote-ref-25)
25. *See* Response to OCC Interrogatory No. 1-009 (Attachment 2). [↑](#footnote-ref-26)
26. *ESP II*, Case No. 11-346-El-SSO, Opinion and Order at 46. [↑](#footnote-ref-27)
27. Blue Ridge Audit Report at 39. [↑](#footnote-ref-28)
28. Id.at 40. [↑](#footnote-ref-29)
29. Id. [↑](#footnote-ref-30)
30. Id. at 41. [↑](#footnote-ref-31)
31. AEP Ohio 1st Quarter Filing 2012 (Attachment 1). [↑](#footnote-ref-32)
32. *See*, Response to OCC Interrogatory No. 1-010 (Attachment 3). [↑](#footnote-ref-33)
33. AEP Ohio 1st Quarter Filing 2012 (Attachment 1). [↑](#footnote-ref-34)
34. *See generally*, *AEP Ohio Rate Case*, Case No. 11-352-EL-AIR, Opinion and Order at 5-6, 10 *see also*, *AEP Ohio Rate Case*, Case No. 11-352-EL-AIR, Joint Stipulation and Recommendation (November 23, 2011); *see also*, *AEP Ohio Rate Case*, Case No. 11-352-EL-AIR, A Report by the Staff of the Public Utilities Commission of Ohio at Schedule B-2.2 (September 15, 2011). [↑](#footnote-ref-35)
35. Blue Ridge Audit Report at 42; AEP Response Data Request 1-027. [↑](#footnote-ref-36)
36. *ESP II*, Case No. 11-346-EL-SSO, Opinion and Order at 42. [↑](#footnote-ref-37)
37. Blue Ridge Audit Report at 43-44. [↑](#footnote-ref-38)
38. Id. at 45-46. [↑](#footnote-ref-39)
39. AEP Ohio 1st Quarter Filing 2012; 2nd Quarterly Filing 2012; 3rd Quarterly Filing 2012; 4th Quarterly Filing 2012 (collectively Attachment 1). [↑](#footnote-ref-40)
40. *In the Matter of the Application of Ohio Power Company to Update its Distribution Investment Rider*, Case No. 12-2627-EL-RDR, 1st Quarterly Filing 2013 (July 1, 2013) (Attachment 4). [↑](#footnote-ref-41)