**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| In the Matter of the Distribution Investment Rider Contained in the Tariffs of Ohio Power Company.  | ))) | Case No. 14-255-EL-RDR |

**COMMENTS**

**BY**

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# i. INTRODUCTION

This case involves the second annual review of the Distribution Investment Rider (“DIR”) of Columbus Southern Power Company and Ohio Power Company (jointly “AEP Ohio” or “the Utility”). Under the DIR, the Utility is permitted to charge its 1.2 million residential customers on an accelerated basis for its proactive distribution infrastructure plan that is supposed to maintain and “facilitate improved service reliability.”[[1]](#footnote-2)

In its Order approving the DIR, the Public Utilities Commission of Ohio (“PUCO”) explicitly required the Utility and the PUCO Staff **to quantify reliability improvements that are expected** as a result of the DIR funding.[[2]](#footnote-3) 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**.[[3]](#footnote-4) The DIR is then subject to annual review for accounting accuracy, prudency, and compliance with the Utility’s distribution maintenance plan.[[4]](#footnote-5) In 2013, AEP Ohio charged customers over $188 million for infrastructure but have shown de minimis quantifiable improvements in service reliability.

The Office of the Ohio Consumer’s Counsel (“OCC”) files these Comments[[5]](#footnote-6) to address the audit of the DIR Program, and its shortcomings. OCC supports many of the recommendations outlined in the Final Audit Report that was filed by Larkin and Associates PLCC (“Larkin” or “Auditor”) on June 19, 2014. However, OCC urges the PUCO to adopt the additional recommendations that are discussed in detail below. OCC’s recommendations are designed to protect AEP Ohio’s customers from bearing costs that were not prudently incurred and costs that do not produce quantifiable reliability improvements.

# II. COMMENTS

## A. The Number Of Customers Interrupted From 2012 To 2013 Increased By 5.3 Percent, Indicating That The 2013 DIR Spending Did Not Assist In Proactively Avoiding Outages.

The PUCO Staff Comments indicate that the proactive programs implemented in 2013 resulted in 31,028 avoided outages.[[6]](#footnote-7) Staff concluded, from these claimed avoided outages, that the DIR programs are having a quantifiable impact on reliability. Despite the PUCO directing AEP Ohio to focus spending on those programs that were expected to have the greatest impact on improving reliability performance,[[7]](#footnote-8) a review of the Utility’s outage events indicates that there was actually a 15 percent increase in the number of outage events from 2012 to 2013. Moreover, the number of customers interrupted (“CI”) and customer minutes interrupted (“CMI”) increased by 5.03 percent and 2.4 percent respectively between 2012 and 2013 as noted below.[[8]](#footnote-9)

**AEP Ohio Outages 2012 -2013**[[9]](#footnote-10)

This outage information suggests that the DIR is having little if any impact on service reliability.

The lack of service reliability improvement quantification is not surprising. AEP Ohio provided very little detail regarding the 27 different programs when it submitted its $188 million 2013 DIR Work Plan.[[10]](#footnote-11) That Work Plan did not provide specific projections of the reliability improvements that could be expected.[[11]](#footnote-12) Indeed, in its review of the 2013 Work Plan, the PUCO found that AEP Ohio’s 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.”[[12]](#footnote-13) 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.[[13]](#footnote-14)

AEP did provide some information to the PUCO Staff, in an attempt to quantify the proactive reliability impact of the DIR expenditures.[[14]](#footnote-15) As evidenced by the Staff’s Comments, however, the reliability impact quantification proved to be woefully inadequate. The PUCO Staff Comments reported the total number of avoided outages for each of the DIR programs that were expected to have a proactive impact on reliability.[[15]](#footnote-16) However, the Staff Comments only listed 12 of the total 27 program items from the 2013 AEP Ohio DIR Work Plan.[[16]](#footnote-17) The other 15 program items were not included in the PUCO Staff chart or Comments – indicating that they had no impact on reliability.

In addition to the 12 items that were listed in the Staff Comments, there were no details to explain or support how these calculations were performed and how a determination was made that the DIR investment resulted in an avoided outage or avoided customer outage minutes. It is very difficult to evaluate the cost effectiveness of the DIR spending without a better explanation and more exact numbers. For instance the PUCO Staff reported that each outage event could impact up to 2,100 customers (presumably a typical number of customers on a feeder circuit).[[17]](#footnote-18) In order for that number to have meaning, however, each outage event that is avoided as a result of the DIR should also include a corresponding estimate of customers who were not interrupted. Simply claiming that from 1 to 2,100 customers may have been impacted is so imprecise that it casts doubt on the alleged benefits counted for this portion of the program.

The quantification of avoided outages should also include the number of avoided customer outage minutes for each of the proactive DIR programs. In fact, the PUCO Staff did comment that the sectionalizing program had an impact of 20,400 avoided CMI outages.[[18]](#footnote-19) However, there was no quantification of avoided CMI for the other programs that are part of the proactive reliability programs. The PUCO Staff Comments failed to explain why the other programs lacked this level of analysis. Considering that in 2013, AEP Ohio customers experienced a total of 211,210,995 CMI,[[19]](#footnote-20) it is difficult to conclude that 2013 DIR spending of $188.6 million resulting in only 20,400 avoided CMI was reasonable. As part of any basic cost-benefit analysis, considerably more information is needed to quantify reductions in the CMI that can be attributed to DIR programs, and to determine if those expenditures were reasonable.

The PUCO Staff’s review and treatment of the DIR investments, requested in this proceeding, should be no different than what the PUCO required for the 2013 review as described in the Finding and Order quoted in the preceding paragraph. The PUCO should require AEP Ohio to demonstrate and quantify the service reliability improvements that resulted from each component of the DIR Program at issue in this proceeding. Furthermore, the PUCO 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. Specifically, future reporting by the Utility and/or PUCO Staff should be in a format similar to the reports that are filed pursuant to OAC 4901:1-10-10. The PUCO should also require AEP Ohio to provide the number of avoided outage events by outage cause, customer interruptions avoided, and CMI avoided, to the extent possible. This reporting format will provide a way to more effectively evaluate and analyze the actual impact of the DIR. Finally, OCC stresses that the PUCO should require AEP Ohio to provide more specific information in its annual Work Plan so that the DIR can be more accurately reviewed.

## B. The PUCO Should Re-Emphasize That Customer Funding Of The DIR Should Be Directed Towards Programs That Actually Improve Service Reliability And Should Find That AEP Ohio May Not Charge Customers For Non-Service Related Spending In The DIR Rider.

The PUCO Staff Comments indicate that AEP Ohio spent $188,455,000[[20]](#footnote-21) on the DIR in 2013, which was $6,419,664 more than was originally projected.[[21]](#footnote-22) Of the total $188,455,000 spent on the DIR, only $79,726,412 was spent on programs that even claim to actually improve reliability.[[22]](#footnote-23) The remaining $108,718,588 in 2013 DIR spending is for components that admittedly have, “**no reliability impact”** from the spending.[[23]](#footnote-24) Thus, almost $108 million or 57.7% of the total $188 million in DIR spending for 2013 was for programs that according to the Utility’s own Work Plan did not have an impact on service reliability. This spending was broken down as follows:

DIR COMPONENT[[24]](#footnote-25) Capital Dollars Spent 2013[[25]](#footnote-26)

Network Capacity $745,680

Capacity Additions $5,943,778

Customer Service Work $27,646,812

Third Party Work Request $6,897,706

Public Project Relocation $10,250,787

Service Restoration $7,318,447

Forestry $8,150,330

Other $41,765,048

TOTAL $108,718,588[[26]](#footnote-27)

The PUCO has previously commented about the significant benefit of accelerated cost recovery that AEP Ohio is provided for its distribution investments because of the DIR.[[27]](#footnote-28) However, AEP Ohio should not reap the benefit of accelerated cost recovery for spending that the Utility concedes will not impact service reliability. Instead, the Utility should seek authority to collect costs as part of a distribution service base rate case. To that effect, the PUCO should order that AEP Ohio re-focus the DIR spending on programs that will result in quantifiable improvements in service reliability, and should exclude non-service reliability spending from DIR recovery.

## C. The Staff Comments Confirm That The DIR Had Very Little Impact On Actually Improving Reliability For AEP Ohio Customers.

According to the PUCO Staff Comments, the 2013 DIR program spending resulted in an alleged reduction of 306 outages in 2013.[[28]](#footnote-29) The PUCO Staff acknowledges that the number of reduction in outages has been relatively small. This small number of reduced outages should be evaluated in light of the level of spending necessary to achieve such a minimal reliability improvement.

Table 1 provides a summary of each of the DIR programs that were expected to improve reliability, the costs that customers paid for each program, the actual number of reduced outages, and the cost that were paid per avoided outage. As noted below in Table 1 for 5 of the 27 DIR work components, AEP Ohio spent over $28 million in 2013 to achieve the 306 claimed avoided outages.

**Table 1: DIR Cost and Impact on Reliability**

|  |  |  |  |
| --- | --- | --- | --- |
| Program | 2013 Expenditures[[29]](#footnote-30) | Reduction in Outages[[30]](#footnote-31) | Cost for Each Avoided Outage[[31]](#footnote-32) |
| Animal Mitigation Station | $93,533 | 4 | $23,382 |
| Lightning Mitigation | $34,320 | 5 | $6,864 |
| Underground Cable Replacement | $19,556,101 | 3 | $6,518,700 |
| Small Wire Replacement | $6,952,659 | 4 | $1,738,165 |
| Overhead Circuit Inspection and Repair | $1,623,785 | 291 | $5,580 |
| Total | $28,260,398 | 306 |  |

Even if we accept the number of claimed avoided outages, the cost for each avoided outage is significant and should be more closely analyzed.

As reflected in Table 1, the cost for each avoided outage was very expensive and dwarfs the amount that customers paid for the minimal improvement. In fact, the cost of $6,518,700 for each avoided outage associated with the Underground Cable Replacement Program should prompt the PUCO to take a second look at the need for continuing the DIR. While the PUCO Staff claims that more improvement should be realized the longer the plant remains in service, there has been no evaluation performed by PUCO Staff or the Utility to further substantiate this assertion.

The Utility and or Staff should report any reduction in outages in 2014 that are attributed to DIR improvements that were made in 2013. In addition to just reporting the avoided outages, the PUCO Staff and or Utility should report the number of avoided CI and the avoided CMI. Furthermore, since each AEP Ohio circuit has a defined system average interruption duration index (“SAIDI”) and system average interruption frequency index (“SAIFI”), the PUCO should require reporting of the SAIFI and SAIDI on a circuit basis for each circuit that is impacted by the DIR. This reporting will enable a better analysis of the impact of the DIR prior to the upgrades and the performance over time. It will also help the PUCO determine whether continuing the DIR makes sense.

## D. As Part Of The Annual Prudence Review, The Utility Should Perform A Basic Cost-Benefit Analysis For The Investments Sought To Be Collected From Customers.

AEP Ohio did not provide a cost-benefit analysis for the various DIR programs where the Utility is now seeking audit approval. In previous cases, such as the related 2013 DIR Work Plan, OCC has been critical of this lack of a cost-benefit analysis especially when increased spending coupled with expedited recovery has not resulted in quantifiable improvements in service reliability.[[32]](#footnote-33) To the contrary, as indicated above, there has actually been an increase in CI and CMI from 2012 to 2013.[[33]](#footnote-34) Moreover, accelerated cost collection from customers makes it even more difficult for customers to pay AEP rates, which are presently the highest in the state.[[34]](#footnote-35)

Neither the PUCO Staff nor Larkin Associates commented on the cost- effectiveness of the DIR investments that were performed by AEP Ohio. While Larkin did selectively verify that plant was in service for a sample of the DIR Investments that were made, the cost-effectiveness of the investments remain unknown. Part of the prudence review should assess the costs and benefits of the Utility’s investments.

For example, one measurement of the cost effectiveness of the DIR investments is how many CMI are avoided as a result of the DIR spending. For the one program where CMI avoided was quantified -- Sectionalizing Program -- there was a claimed benefit of 20,400 avoided. However, when compared with the level of investment the Utility made in Sectionalizing -- $1,153,637[[35]](#footnote-36) -- the result is an investment cost of about $52 per avoided CMI.[[36]](#footnote-37) In the AEP Ohio gridSMART Phase II Application,[[37]](#footnote-38) the Utility cited to a study performed by the Ernest Orlando Lawrence Berkeley National Laboratory (“Berkeley Lab”). The Berkeley Lab study values the cost of an outage for residential customers at approximately $3.00 per hour.[[38]](#footnote-39) While the sectionalizing that was performed in 2013 may accrue more benefits over time, spending $52 to avoid a customer outage minute is questionable when the benefit for residential customers is around $0.05 per minute. A basic cost-benefit analysis would evaluate the reasonableness of this spending.

## E. AEP Ohio Should Not Be Able To Charge Customers (Through The DIR) For Costs That Are Simply Defined As “Other.”

While OCC applauds the Staff and Auditor recommendation to disallow non-Ohio DIR expenditures,[[39]](#footnote-40) AEP Ohio should not be permitted to recover any costs generally attributed as “Other.” Larkin verified that $51,336,048 was expended in the “Other” category of the DIR Plan.[[40]](#footnote-41) The AEP Ohio DIR Work Plan describes the “Other” category as being:

This work component includes AEP Ohio items which are involved in day to day work components of service to existing customers. This would include such items as distribution line transformers, **customer meters, and line tools needed to perform work**.[[41]](#footnote-42)

$51 million in spending[[42]](#footnote-43) is beyond the service reliability spending contemplated by the PUCO in the ESP II Order when the DIR Program was initiated as a proactive distribution infrastructure plan.[[43]](#footnote-44) This is because spending related to customer meters and line tools does not necessarily result in quantifiable service reliability improvements and appears to be related to usual and customary utility service. A miscellaneous and undefined category that accounts for over 27% of the total 2013 DIR Program should be cause for concern.

This concern is exacerbated where the Auditor also found that the undefined “Other” expenditures were overstated by approximately $9,571,000 as a result of reporting investments that are attributed to Wheeling Power.[[44]](#footnote-45) OCC is concerned that the “Other” category of the DIR Plan is overly broad and that without extensive accounting oversight can result in non-Ohio investments being charged to Ohio customers. For that reason, OCC supports the Staff recommendation disallowing that amount and stating that the DIR Plan should only include spending on infrastructure in Ohio.[[45]](#footnote-46)

More fundamentally, however, OCC is opposed to AEP Ohio charging customers for investments that are purportedly “distribution infrastructure improvements” when AEP Ohio cannot define such investments to a level of granularity beyond “Other.” Instead, customers should not be charged through the DIR for investment that appears to be unrelated to the distribution infrastructure plan. Expenses for “day-to-day” distribution work should be expenses that the utility has an opportunity to seek through a base distribution rate case. And any DIR Program spending should be for specified programs that are well-defined and result in quantified service reliability improvements.

## F. An Evidentiary Hearing Is Required To Adequately Analyze And Evaluate The 2013 DIR Rider.

The PUCO should order an evidentiary hearing in order to better evaluate the 2013 DIR Program spending of over $188 million in customers’ money that the Utility collected from customers on an accelerated basis. OCC requested a hearing when AEP Ohio filed its 2013 Work Plan after raising concerns about the projected reliability impacts of the DIR Plan.[[46]](#footnote-47) The PUCO denied OCC ‘s request for a hearing at that time by noting that the 2013 DIR expenditures contained in the Work Plan would be subject to annual accounting for accuracy and prudency.[[47]](#footnote-48) For the reasons explained above, the need for a hearing is even more evident now that the 2013 annual review and audit is completed. Therefore, the PUCO should order a hearing where AEP Ohio should be required to demonstrate the reasonableness of the DIR Program spending and also to quantify the service reliability improvements from the spending as was previously required by the PUCO.[[48]](#footnote-49)

# 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 Final Audit Report as well as the additional recommendations proposed by OCC -- including the need for an evidentiary hearing -- are necessary to protect AEP-Ohio’s customers from unreasonable charges.

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 10th day of September, 2014.

*/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 46-47 (August 8, 2012); *see also*, *In the Matter of the Commission’s Review of Ohio Power Company’s Distribution Investment Rider Plan*, Case No. 12-3129-EL-UNC, Finding and Order at 10 (May 29, 2013). [↑](#footnote-ref-2)
2. Id. at 47 (Emphasis added). [↑](#footnote-ref-3)
3. Id. (Emphasis added). [↑](#footnote-ref-4)
4. Id. at 47. [↑](#footnote-ref-5)
5. AEP Ohio and other intervenors are permitted to file Initial Comments by September 10, 2014 and Reply Comments by September 25, 2014. Entry at 2 (August 11, 2014). [↑](#footnote-ref-6)
6. PUCO Staff Comments at 8 (July 21, 2014). [↑](#footnote-ref-7)
7. Case No. 12-3129-EL-UNC, Finding and Order at 13. [↑](#footnote-ref-8)
8. Case No. 13-2385-EL-SSO, AEP Ohio ESP III, Williams Testimony at 30-32 (May 6, 2014). [↑](#footnote-ref-9)
9. Annual Reports filed by AEP Ohio pursuant to Ohio Admin. Code 4901:1-10-10(C)(3)(a) for 2012 and 2013. Attached to the prefiled Direct Testimony of James Williams in Case No. 13-2385-EL-SSO (May 6, 2014). [↑](#footnote-ref-10)
10. See, PUCO Staff Comments at 7 (July 21, 2014). [↑](#footnote-ref-11)
11. *In the Matter of the Commission’s Review of the Ohio Power Company’s Distribution Investment Rider*, Case No. 12-3129-EL-UNC, OCC Initial Comments at 13-14 (January 18, 2013). [↑](#footnote-ref-12)
12. *In the Matter of the Commission’s Review of the Ohio Power Company’s Distribution Investment Rider*, Case No. 12-3129-EL-UNC, Commission Finding and Order at 10 (May 29, 2013). [↑](#footnote-ref-13)
13. Id. at 11-12. [↑](#footnote-ref-14)
14. PUCO Staff Comments at 8-9 (July 21, 2014). [↑](#footnote-ref-15)
15. PUCO Staff Comments at 8, Table 5 (July 21, 2014). [↑](#footnote-ref-16)
16. PUCO Staff Comments at 8 (July 21, 2014); see also, Final Audit Report at 6-3. [↑](#footnote-ref-17)
17. PUCO Staff Comments at 8 (July 21, 2014). [↑](#footnote-ref-18)
18. PUCO Staff Comments at 8 (July 21, 2014). [↑](#footnote-ref-19)
19. AEP Ohio ESP III, Williams Direct Testimony at 31 (May 6, 2014). [↑](#footnote-ref-20)
20. Final Audit Report at 6-3; PUCO Staff Comments at 7 (July 21, 2014). [↑](#footnote-ref-21)
21. PUCO Staff Comments at 4 (July 21, 2014). [↑](#footnote-ref-22)
22. Final Audit Report at 6-3; PUCO Staff Comments at 7 (July 21, 2014). [↑](#footnote-ref-23)
23. Final Audit Report at 6-3 (emphasis added); see also, Case No. 12-3129-EL-UNC, AEP Ohio DIR Work Plan at pp 4-5 (December 3, 2012). [↑](#footnote-ref-24)
24. Final Audit Report at 6-2, 6-3. [↑](#footnote-ref-25)
25. Final Audit Report at 6-2, 6-3. [↑](#footnote-ref-26)
26. While AEP Ohio claims $51,336,048 in “Other” DIR expenditures, the Final Audit Report at 6-3 notes that AEP Ohio over-stated by $9,571,000 the amount spent in the “Other” category. The PUCO Staff has accepted this recommendation and incorporated it into its Comments filed with the Commission. [↑](#footnote-ref-27)
27. Case No. 12-3129-EL-UNC, Finding and Order at 13. [↑](#footnote-ref-28)
28. PUCO Staff Comments at 9 (July 21, 2014). [↑](#footnote-ref-29)
29. Final Audit Report at 6-3. [↑](#footnote-ref-30)
30. PUCO Staff Comments at 9, Table 6 (July 21, 2014). [↑](#footnote-ref-31)
31. 2013 Expenditures / Reduction in Outages. [↑](#footnote-ref-32)
32. Case No. 12-3129-EL-UNC, OCC Reply Comments at 12 (February 1, 2013). [↑](#footnote-ref-33)
33. See above at page 3. [↑](#footnote-ref-34)
34. AEP Ohio ESP III, Williams Testimony at 4-20 (May 6, 2014). [↑](#footnote-ref-35)
35. Final Audit Report at 6-2 [↑](#footnote-ref-36)
36. $1,153,637 / 20,400. [↑](#footnote-ref-37)
37. *In the Matter of the Application Not for an Increase in Rates Pursuant to Section 4909.18, Revised Code, of Ohio Power Company to Establish an Expiration for its gridSMART Experimental Tariffs*, Case No. 13-1937-EL-ATA, Application (September 13, 2013). [↑](#footnote-ref-38)
38. Berkley Lab Study at 31, Table 4 – Customer Costs for the U.S. in 2001. (February 2006). [↑](#footnote-ref-39)
39. PUCO Staff Comments at 1 (July 28, 2014); Final Audit Report at 6-3. [↑](#footnote-ref-40)
40. Final Audit Report at 6-3. [↑](#footnote-ref-41)
41. Final Audit Report at 6-3 (emphasis added). [↑](#footnote-ref-42)
42. Final Audit Report at 6-3 notes that AEP Ohio over-stated the amount of capital spent in the “Other” category by $9,571,000 due to recovery of costs that were associated with Wheeling Power. This finding underscores the need for the PUCO to eliminate the use of the “Other” category of spending from the DIR and to require better defined programs with more quantifiable reliability benefits. [↑](#footnote-ref-43)
43. (“*ESP II*”), Case No. 11-346-EL-SSO, Opinion and Order at 47 (August 8, 2012). [↑](#footnote-ref-44)
44. Final Audit Report at 6-4. [↑](#footnote-ref-45)
45. PUCO Staff Comments at 1 (July 28, 2014). [↑](#footnote-ref-46)
46. Case No. 12-3129-EL-UNC, Initial Comments of the Office of the Ohio Consumers Counsel, at 20-22 (January 18, 2013). [↑](#footnote-ref-47)
47. Case No. 12-3129-EL-UNC, Finding and Order at 12 (May 29, 2013). [↑](#footnote-ref-48)
48. See *In the Matter of the Commission’s Review of Ohio Power Company’s Distribution Investment Rider Plan,* Case No. 12-3129-EL-UNC, Entry on Rehearing at 3, paragraph 10 (July 17, 2013). [↑](#footnote-ref-49)