BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Power Company to Update its gridSMART Rider.	)))	Case No. 12-509-EL-RDR

FINDING AND ORDER

On March 18, 2009, the Commission issued its Opinion and Order in Columbus Southern Power Company's (CSP) and Ohio Power Company's (OP) (jointly, AEP-Ohio or Company) electric security plan (ESP 1) cases (ESP 1 Order).[1] By Entries on Rehearing issued July 23, 2009 (First ESP EOR), and November 4, 2009, the Commission affirmed and clarified certain issues raised in AEP-Ohio's ESP 1 Order. As ultimately modified and approved by the Commission, the ESP 1 Order authorized CSP to create the Phase 1 gridSMART rider.[2] As adopted by the Commission, the Phase 1 gridSMART project consisted primarily of advanced meter infrastructure (AMI), home area network (HAN) and distribution automation (DA) and required the Company to pursue federal funding for the project. CSP began billing its customers for the gridSMART rider in April 2009. The gridSMART rider was evaluated and reviewed for 2010 and 2011 expenditures, in Case Nos. 10-164-EL-RDR and 11-1353-EL-RDR, respectively. The term of AEP-Ohio's ESP 1 ended December 31, 2011.

On January 27, 2011, AEP-Ohio filed its application for a subsequent ESP to commence January 1, 2012, and continue through May 31, 2014. On September 7, 2011, a Stipulation and Recommendation (ESP 2 Stipulation) was filed by AEP-Ohio, Staff, and other parties to resolve the issues raised in the ESP 2 and several other AEP-Ohio cases pending before the Commission (consolidated cases).[3] On December 14, 2011, the Commission issued its Opinion and Order in the ESP 2 and the consolidated cases, finding that the ESP 2 Stipulation, as modified, be approved. As part of the Order issued

---

1 *In re AEP-Ohio ESP 1 cases,* Case Nos. 08-917-EL-SSO and 08-918-EL-SSO, Opinion and Order (March 18, 2009).

2 *In re AEP-Ohio ESP 1 cases,* Order at 34-38; First ESP EOR at 18-24.

3 Specifically, the following cases: *In the Matter of the Application of Ohio Power Company and Columbus Southern Power Company for Authority to Merge and Related Approvals,* Case No. 10-2376-EL-UNC; *In the Matter of the Application of Columbus Southern Power Company to Amend its Emergency Curtailment Service Riders,* Case No. 10-343-EL-ATA; *In the Matter of the Application of Ohio Power Company to Amend its Emergency Curtailment Service Riders,* Case No. 10-344-EL-ATA; *In the Matter of the Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company,* Case No. 10-2929-EL-UNC; *In the Matter of the Application of Columbus Southern Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Pursuant to Section 4928.144, Revised Code,* Case No. 11-4920-EL-RDR; *In the Matter of the Application of Ohio Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Pursuant to Section 4928.144, Revised Code,* Case No. 11-4921-EL-RDR.

December 14, 2011, approving the ESP 2 Stipulation, the Commission approved AEP-Ohio's request to merge CSP with and into OP, with OP as the surviving entity.

Applications for rehearing of the December 14, 2011, ESP 2 Order were filed. After considering the issues raised on rehearing, on February 23, 2012, the Commission issued its Entry on Rehearing concluding that on two specific issues even as modified the Stipulation, as a package, did not benefit ratepayers and the public interest and, thus, did not satisfy the three-part test for the consideration of stipulations.

By entry issued on March 7, 2012, in Case No. 10-2376-EL-UNC, the Commission confirmed its approval of the merger of CSP and OP effective December 31, 2011.

Subsequently, on March 30, 2012, AEP-Ohio filed a modified ESP (modified ESP 2) for the Commission's consideration. As proposed by the Company, the modified ESP 2 would commence on June 1, 2012, and continue through May 31, 2015. By Order issued on August 8, 2012, the Commission approved, with certain modifications, AEP-Ohio's modified ESP 2 application which included the continuation of the gridSMART Phase 1 rider subject to annual true-up and reconciliation based on the Company's prudently incurred costs to be recovered from former CSP and OP customers and the implementation of a Phase 2 gridSMART rider, subject to certain clarifications.

The Phase 1 gridSMART rider rate was last evaluated for prudency of expenditures, reconciled for over- and under-recoveries and the rate mechanism adjusted in Case No. 11-1353-EL-RDR, with the rate effective beginning September 1, 2011 to continue through August 31, 2012. Despite the Commission's February 23, 2012, rejection of the initial ESP 2 Stipulation, the recovery of the gridSMART rate mechanism continued consistent with the Entry issued on March 7, 2012, in the ESP 2 and the consolidated cases.

On February 1, 2012, OP filed the instant application to update its gridSMART rider. AEP-Ohio explains that, as noted in prior gridSMART applications, as directed by the Commission in the ESP 1 cases, the Company pursued and was awarded funding through the American Reinvestment Recovery Act (ARRA) from the United States Department of Energy (USDOE). AEP-Ohio states that ARRA funding further required enhancement of the gridSMART plan presented to the Commission in the ESP 1 cases to include real-time pricing, community energy storage, smart appliances, cyber security operation center, and plug-in electric vehicle components. AEP-Ohio notes that in the ESP 1 cases, the Commission approved AEP-Ohio's gridSMART rider subject to annual reconciliation based on the Company's prudently incurred costs and receipt of ARRA grant funding. AEP-Ohio explains that its contract with USDOE was not finalized until May 25, 2010 and, so as to avoid exceeding the reimbursement limitations, AEP-Ohio slowed the pace of the gridSMART project until the contract was finalized. Thereafter, AEP-Ohio states that while it resumed gridSMART deployment and spending, the

Company did not reach its spending projections and has over-recovered for 2011. As of the filing of the current application, AEP-Ohio had over-recovered approximately $7.0 million. In this application, AEP-Ohio presents its actual project spending and rider collection for 2011 and projected spending and revenue requirements for 2012. AEP-Ohio requests that the current gridSMART rider rates be maintained at the current rate. Pursuant to the Commission's Order in the Company's most recent gridSMART case, Case No. 11-1353-EL-RDR, CSP's gridSMART rider rate was set at $0.52/month for residential customers and at $2.27/month for non-residential customers effective with the first billing cycle of September 2011. However, in recognition of an outstanding issue from the previous gridSMART rider case, AEP-Ohio offers an alternate rate should the Commission conclude that lost meter expenses are not recoverable.

On February 29, 2012, the Office of the Ohio Consumers' Counsel (OCC) filed a motion to intervene. OCC asserts that it has a substantial interest in this case and claims that the disposition of the case may impair or impede its ability to protect the interest of AEP-Ohio's residential customers. No memorandum contra OCC's motion for intervention was filed. The Commission finds that OCC set forth reasonable grounds for intervention and, therefore, OCC's motion to intervene should be granted.

By entry issued on July 9, 2012, a procedural schedule was established whereby interested persons were directed to file comments to the Company's gridSMART rider application by August 10, 2012. Reply comments were due by August 17, 2012. Comments were filed by Staff, OCC and AEP-Ohio and reply comments filed by OCC and AEP-Ohio.

A. Audit Process, Staff Recommendations, and Intervener Comments

As a part of its investigation, Staff conducted an extensive review of AEP-Ohio's capital additions, operations and maintenance (O&M) expenses, and equipment purchase costs. Staff also reviewed AEP-Ohio's calculation of the revenue requirement for the Phase 1 gridSMART rider mechanism. (Staff Comments at 3-4.)

(1) Loss on disposition of meters

As previously noted, in the Company's prior gridSMART case, AEP-Ohio proposed to recover the $2,224,834 loss on the disposition of electro-mechanical meters removed as a result of the installation of AMI equipment as part of the gridSMART Phase 1 program. Staff requested that the loss for the disposition of the electro-mechanical meters be deducted from project costs. The Commission agreed with Staff's recommendation to deduct the loss on the disposition of electro-mechanical meters from the rider costs but kept the issue open for further consideration in the Company's subsequent gridSMART applications.[4]

In this case, AEP-Ohio again requests to collect a loss on the disposition of electro-mechanical meters. The Company states that the loss on the disposition of the meters for the gridSMART program is a reasonable and appropriately included in O&M expense.[5] However, the Company also provided as a part of the application, a schedule supporting the revenue requirement calculation and applicable rider rates, excluding the loss on meters requested in the previous gridSMART case (Schedule 2).

As a result of the Staff's further investigation on the exclusion of any loss on the disposition of meters, Staff now recommends partial recognition of the loss, subject to three adjustments. First, Staff states that in February 2010, CSP transferred 16,654 meters valued at $552,245 to other AEP-Ohio affiliates, but the value of the transferred meters was incorrectly booked to a non-gridSMART account. As a result, the value of the transferred meters was not offset against the original amount for the loss on meters. Therefore, Staff recommends a reduction of $552,245 on the loss on the disposition of meters in order to account for the transaction. (Staff Comments at 6-7.)

Second, Staff notes that during the course of its investigation, the Company discovered that it had booked 1,195 meters, which had been removed, to a non-gridSMART account. The labor for removing these meters was properly recorded; however, the remaining undepreciated value was recorded in a non-gridSMART account. To correct the account to include the remaining undepreciated value of these meters in a gridSMART account increases the loss on the disposition of meters by $30,994. (Staff Comments at 7.)

Third, Staff offers that the Company received approximately $.36 in scrap value per pound for removed meters that were not transferred to other business units. Staff determined that 48,663 meters were sold for scrap. Accordingly, Staff recommends the loss on the disposition of meters be reduced by $48,176. (Staff Comments at 7.)

In total, Staff recommends an exclusion of $569,427 on the Company's requested loss on the disposition of meters, resulting in an adjusted loss on the disposition of meters of $1,655,407 to be included in the gridSMART rider. The Company proposes to expense this amount in one year. However, Staff requests that the treatment it recommends in this case for the loss on the disposition of meters not be used to establish a precedent in future cases. (Staff Comments at 8.)

---

4 Case No. 11-1353-EL-RDR, Order at 5 (August 24, 2011).

5 Case No. 12-509-EL-RDR, Application at 3 (February 1, 2012).

OCC opposes the Company's request for recovery of the loss on the disposition of meters. OCC emphasizes that the Company has the burden of proof in this proceeding, and AEP-Ohio has offered no new support for its claim that the meter expenses should be included in the gridSMART costs. For that reason, OCC requests that the Commission again disallow the recovery on any asserted loss on the disposition of meters. However, in the event that the Commission allows the Company to recovery any portion of the meter expense, OCC requests that the Commission adjust the recovery on the loss on the disposition of meters to at least disallow any charges for meters that were older than 25 years and, therefore, fully depreciated and for meters that were subsequently used to replace other meters in the Company's service territory and have useful lives of 25 years. OCC replies that it is unclear whether the Staff's audit examined the two issues raised by OCC. (OCC Comments at 2-4; OCC Reply Comments at 4-5.)

In response, AEP-Ohio notes that Staff, based on its investigation, concluded that at least some of the loss on the disposition of meters should be recovered. The Company claims that the recovery of the loss on disposition of property pertaining to the early retirement of these meters was addressed in the Company's ESP 1 application as part of the accounting for the gridSMART rider. In the ESP 1 case, AEP-Ohio asserts that it proposed that this loss be included in the gridSMART rider as a program expense. This loss was included in the overall gridSMART rider approved by the Commission in that case. The Commission should reject OCC's conclusion on this issue. AEP-Ohio agrees with Staff's recommendations to adjust the amount for the loss on the removal of meters. (AEP-Ohio Reply Comments at 2-3.)

In light of the Staff's continuing investigation of this issue and their endorsement of the recovery on the loss on the disposition of the meters, the Commission finds that AEP-Ohio may include in the gridSMART revenue requirement the loss on disposed meters, subject to the adjustments recommended by the Staff. While OCC raises two possible adjustments to the loss on the disposition of meter expense, we note that Staff's investigation included accounting for the meters transferred to other AEP affiliates, meters re-used by AEP-Ohio in their service territory and meters removed but older than the expected useful life of such equipment such that the Commission concludes the issue has been addressed. OCC's comments do not clearly suggest to the Commission what additional adjustment OCC is recommending be made. For these reasons, we will not order the adjustments suggested by OCC.

Given that this matter was carried over from the Company's preceding gridSMART rider case and the amount of the loss to be recorded, we find it acceptable in this case, for the Company to expense the loss on the disposition of meters over one year. We find that Staff and OP have presented sufficient reason for the Commission to conclude that Staff's evaluation of the loss on meters and the recommended adjustments on the loss, is reasonable in this case. We further note that AEP-Ohio agrees with the adjustments recommended by Staff. Accordingly, the Commission finds such to be a reasonable and just resolution of this issue.

(2) Per Diem Expenses

Staff notes that the USDOE has federally approved limits for hotel, travel and meal expenses. Based on its investigation, Staff states that the Company's travel expenses exceeded USDOE's guidelines for reimbursement and recommends that amounts over the guidelines not be collected from Ohio ratepayers. Staff recommends a reduction of $25,429 from O&M expense and a reduction of $66,798 from capital. (Staff Comments at 8.)

The Company responds that it is not aware of any state proceedings where the Commission adopted the USDOE guidelines for per diem expenses. In addition, the Company notes that it has included an adjustment in its base distribution case to remove any expenses and capital requested for recovery through the gridSMART rider. By adopting USDOE guidelines in the gridSMART rider outside of the methodology used in the base distribution case, the Company will not recover these costs. (AEP-Ohio Reply Comments at 6-7.)

With the approval of the Phase I gridSMART rider mechanism, the Commission specifically directed the Company to pursue federal funds through the USDOE in an effort to reduce the costs of the gridSMART Phase I project for Ohio ratepayers. The Commission also elected to implement a gridSMART rider, as opposed to the automatic distribution increases proposed by AEP-Ohio, to better facilitate the Commission's review of gridSMART expenditures to ensure prudency. Where the Company's hotel, travel, and meal expenses exceed the USDOE guidelines we find, without further information provided by the Company, that such expenditures are imprudent. To encourage the Company to better control hotel, travel, and meal expenditures, any amounts over the USDOE guidelines should not and will not be automatically borne by Ohio ratepayers. Accordingly, the Commission directs that the gridSMART revenue requirement be reduced for excessive per diem expenses as suggested by Staff.

(3) Community Energy Storage

One of the components of AEP-Ohio's gridSMART program is the Community Energy Storage (CES) program which includes the deployment of 80 25-kilowatt CES Units (CES Units). A CES Unit is comprised of lithium ion batteries and power control systems which are connected to secondary transformers on selected customer premises providing, among other things, backup power and voltage correction. (AEP-Ohio Reply Comments at 3.)

Staff states that after purchasing 38 of the CES Units and installing 15 of them at customer sites, AEP-Ohio determined that the batteries were not performing as expected, and returned all 38 CES Units to the vendor for correction of the deficiencies. The cost of these CES Units, however, was charged to the gridSMART Rider during 2011. Staff offers that, while the gridSMART Phase 1 pilot is being undertaken for purposes of learning, the learning objectives do not include whether the batteries would work, as the battery technology is mature, but rather how well the batteries would achieve the purpose of mitigating localized load anomalies or fluctuations. This was not a test of battery technology but rather it was a test of the degree to which properly operating batteries could contribute to localized demand for power and related impacts on the distribution system. Staff does not believe the gridSMART Rider should include these costs until the vendor corrects the problem, the vendor returns the CES Units to AEP-Ohio and the units are installed. On that basis, Staff recommends a $2,139,049 adjustment to temporarily remove the associated costs from the calculation of the gridSMART Rider. (Staff Comments at 8-9.)

Although OCC recognizes the benefits of CES Units for the Company and its customers, under the circumstances in this case, OCC requests that the cost associated with CES batteries be deducted from the revenue requirement for the rider. OCC offers that AEP-Ohio informed the gridSMART collaborative in June 2012 that the batteries for the CES Units had been sent back to the manufacturer because of operational problems in the field. Thus, OCC states the CES Units are not providing service to customers and there is no benefit derived. OCC reasons that, unlike the situation in the Company's previous gridSMART case, where the Commission ruled that the Company may collect prudent expenditures for gridSMART equipment as the expenditures are incurred, the facts in this proceeding are different from the facts in that case.[6] Unlike the DA equipment at issue in the prior gridSMART case where the equipment had been purchased but not installed or installed and not yet activated, in this case the batteries for the CES Units have been returned. OCC notes that the Commission reasoned in that instance that gridSMART, as approved by the Commission, to encourage the expedient installation and operation of gridSMART technologies, prudent gridSMART investments are recoverable as costs are incurred and rejected the Staff's recommendation to exclude certain DA expense. OCC argues the circumstances are significantly different here. OCC states the batteries have been returned to the manufacturer, International Battery, the sole manufacturer of such energy storage technology. Further, according to OCC, International Battery has ceased operations. OCC states that AEP-Ohio informed the collaborative that the CES Units would not likely be operational until late 2012 or 2013. Therefore, OCC reasons that the Company's estimate of when CES is likely to be operational is unrealistic and customers should not have to pay for equipment that is not used and useful in the provision of utility service. OCC requests that the capital portion of the CES Units program costs be

6 Case No. 11-1353-EL-RDR, Order at 3 (August 24, 2011).

disallowed until the CES Units are providing service to Ohio consumers. (OCC Comments at 5-7.)

In response to the comments of the Staff, AEP-Ohio notes that, while the Staff recommends temporarily removing the costs associated with the CES Units from the calculation of the rider until the vendor corrects the problem and returns the batteries to AEP-Ohio, Staff does not state or suggest that these investments are imprudent. Additionally, AEP-Ohio offers that the partial payment (35 percent of the total) to the CES vendor was a progress payment against the contract value, not payment for specific CES Units. The Company claims that the progress payment was made to facilitate the vendor's engagement in preliminary activities including development and the initiation of procurement of critical CES Unit components. The Commission should reject Staff's recommendation on this issue and continue to find that the costs of prudent gridSMART investments should be recovered as they are incurred. (AEP-Ohio Reply Comments at 3, 7.)

As to OCC's opposition to the CES Unit cost, AEP-Ohio states that it installed and placed into operation new CES Unit technology. After installing the CES Units, AEP-Ohio discovered that they were not performing in accordance with specifications. AEP-Ohio removed all CES Units from the field and returned them to the vendor for remediation of the discovered issues. AEP-Ohio asserts it is working closely with the vendor to correct the issues and resume deployment. The Company states that once the issues are remediated and the CES Units are re-installed and functioning in accordance with specification, the remaining contract balance will be due to the vendor. Relying on the Commission's determination in the previous gridSMART case, AEP-Ohio reiterates that the Company uses a levelized carrying charge since recovery under the rider is for prudent dollars spent for the gridSMART project. This levelized approach recognized that while the assets may not be in service at the time of the audit, most assets will be placed in service soon after purchase. No party has challenged the prudency of the CES investments. The gridSMART project is a demonstration providing leading edge technology to accelerate the commercialization of innovative technologies. By the nature of a demonstration, some technologies will require adjustments and enhancements before they are cost effective and have demonstrated success. The lack of success on the first CES Units was through no fault of the Company and the costs spent to test that trial were prudently expended. In addition, the Company will not make the additional 65 percent progress payment until the issues are remediated and the Company can resume installation. Accordingly, the Commission should once again find that the costs of prudent gridSMART investments, such as the CES investments here, should be recovered as they are incurred. (AEP-Ohio Reply Comments at 3.)

On September 25, 2012, AEP-Ohio filed a motion for leave to file supplemental reply comments as to the CES program with a request for expedited ruling. AEP-Ohio contends that the supplemental filing is necessary to provide the Commission with more comprehensive information on the components of the CES Units and the latest information on the progress to resolve the design and operational issues. The supplemental information is accompanied by an affidavit from Karen L. Slonecker, AEP-Ohio's Director of Customer Services and Marketing, responsible for the implementation of Phase 1 gridSMART.

On September 26, 2012, OCC filed a memorandum contra the Company's motion to file supplemental reply comments. OCC argues that AEP-Ohio failed to explain or demonstrate that the supplemental information could not have been provided as a part of the Company's reply comments in this proceeding. According to OCC, the Company's attempt to bolster its reply comments is not good cause. On that basis, OCC contends that no good cause has been shown sufficient to reopen this matter as provided in Rule 4901-1-34(B), O.A.C.

The Commission grants AEP-Ohio's requests to supplement its reply comments and the request for expedited ruling in this case. Although the supplemental reply comments are not timely, the additional information contradicts a claim of the Staff and, in point of fact, substantiates the comments of OCC as to the CES program. We note that the Staff does not oppose the claims made by the Company in its supplemental reply comments. The additional information presented by the Company facilitates a Commission decision based on the latest and best information available. Accordingly, we grant AEP-Ohio's request for leave to file supplemental reply comments.

In its supplemental reply comments, AEP-Ohio asserts, despite Staff's comments to the contrary, the CES battery technology is truly emerging technology. The Company states that while the lithium ion batteries are a mature product for various household and automotive applications, it is new and unproven technology in the utility industry particularly where the battery cell is exposed to environmental conditions associated with below grade placement. AEP-Ohio states that, to its knowledge, it is the first utility to install CES/lithium ion technology at multiple sites. The Company further explains that the control system for the CES Units is new and unproven. AEP-Ohio states that it has received and begun to lab test four pre-production CES Units, and lab testing is expected to show that the previously identified design and operational issues have been resolved to the Company's satisfaction. Furthermore, field testing will be conducted over a 3-8 week period for each unit to assure the units operate under all operating conditions and environments. AEP-Ohio states that the vendor and the Company have developed a schedule to address the task to deliver 80 operational, compliant CES Units for installation by the end of 2013 and the Company has aligned resources and priorities to quickly redeploy the units once they are received and tested. (AEP-Ohio Supplemental Reply Comments and Affidavit.)

Previously, despite the recommendation of Staff, the Commission found that the cost of DA equipment, purchased but not installed or installed but not yet activated, should be reflected in the gridSMART rider as the cost were incurred.[7] The DA equipment would be installed and activated as personnel under AEP-Ohio's control were available to install, test and activate the equipment. However, in this case the CES Units, although partially paid for by AEP-Ohio, are not in the possession of AEP-Ohio to be tested, installed or activated. According to OCC, AEP-Ohio informed the collaborative that the CES Units would not likely be operational until late 2012 or 2013. In its replies, AEP-Ohio confirms that the CES Units will be delivered in 2013 and subsequently tested before the units can be installed and activated. Given the amount of time that will pass before the units are even returned to the Company for testing, the Commission finds it unreasonable for AEP-Ohio customers to incur the costs associated with CES Units, at this time. Although there is some disagreement whether the application of lithium ion technology in the utility industry for energy storage is new technology, the fact remains, as AEP-Ohio acknowledges, the CES Units did not perform in accordance with specifications and have been returned to the vendor. According to the schedule developed by the vendor and AEP-Ohio, the CES Units will not be returned to the Company until late 2013. Based on the information presented, the Commission finds that it is unreasonable for the partial payment for the batteries/ CES Units to be reflected in the gridSMART rider mechanism, at this time. Accordingly, as recommended by Staff, the Company is directed to reduce the gridSMART rider by $2,139,049 until the CES Units are returned, tested, operational and ready to be installed.

(4) Reclassification of Certain Program Cost

Staff determined as a result of its financial audit, that costs incurred on a software development project, identified as Project ITUOP1006, were classified to the Distribution Automation (DA) program. Staff asserts that based on the description of the project activities, the associated cost are more appropriately assigned to the Company's Automated Metering Infrastructure (AMI) program. The software project included cost associated with activities to, program changes needed for new tariffs, interface into and from existing Company applications, development of customer web portal enhancements, and various AMI integrations. Staff states that although the costs are documented and should be recovered through the gridSMART rider, Staff reasons that if the cost are not correctly reflected in the appropriate program, cost of a particular program will be inflated, distorting future cost/benefit analyses used to determine whether either program should be extended throughout the AEP-Ohio service territory. For that reason, Staff recommends that the Company reclassify (from the DA Program to the AMI Program) the $194,822 AEP-Ohio charged to Project ITUOP1006 during 2011 and that the Commission

---

[7] Case No. 11-1353-EL-RDR, Order at 3 (August 24, 2011).

direct the Company to provide Staff with documentation of that reclassification upon completion. (Staff Comments at 9-10.)

AEP-Ohio has no objection to reclassifying software project charged to the DA program to the AMI program and will make the correction and send confirmation of the change to Staff (AEP-Ohio Reply Comments at 8).

The Commission finds this to be a reasonable resolution of the issue and directs that the software project charged to the DA program be reclassified to the AMI program.

(5) Over-collection of rider

OCC notes that, since the implementation of the gridSMART rider, the Company has consistently over-collected. Although the Company has reduced the revenue requirement in its application to eliminate the over-collection, OCC emphasizes that AEP-Ohio has not paid customers any interest for the use of ratepayer funds. OCC recommends that an adjustment be made to the Company's revenue requirement to account for the cost of borrowing. For symmetry purposes, the interest rate for the adjustment should be the rate the Company uses to calculate carrying charges that customers pay on the Company's annual investment, the weighted average cost of capital,[8] at a rate of 8.11 percent.[9] (OCC Comments at 7-8; OCC Reply Comments at 3-4.)

The Company requests that the Commission deny OCC's recommendation for interest on the over-collection. AEP-Ohio emphasizes that Schedule 2, details the reduction in the 2012 revenue requirement to eliminate any remaining over-recovery, an approach Staff supports. Further, as the Company explained in its application, the prior years' over-recovery was due in large part to the curtailment of spending while an agreement with the USDOE was being finalized; since reaching an agreement with the USDOE, gridSMART spending is no longer being curtailed. Further, according to the Company, the program's budget has been completely refreshed to more accurately reflect current costs and projections of the program's costs through 2012. AEP-Ohio anticipates that these efforts will lead to the elimination of over-recoveries to the extent experienced in the early stages of the program. (AEP-Ohio Reply Comments at 5-6.)

Additionally, AEP-Ohio reasons that the Commission did not order AEP-Ohio to pay interest on any over-recovery when it approved the gridSMART rider in the

---

8 Case No. 09-872-EL-FAC, et al., Entry on Rehearing at 9 (April 11, 2012).

9 See Exhibit B to OCC's Comments, Ohio Power's Response to OCC-1a-001, Attachment 1. The rate is the Company's weighted average cost of capital approved in the ESP 1 Order, without the effect of short-term interest costs that cause the rate to vary monthly. See *In the Matter of the Application of Columbus Southern Power Company to Update Its GridSMART Rider*, Case No. 10-164-EL-RDR, Finding and Order at 7 (August 11, 2010).

Company's first ESP—nor did the Commission authorize AEP Ohio to recover interest on any underrecovery of gridSMART program costs. OCC provides no support for its request and it should be rejected by the Commission. (AEP-Ohio Reply Comments at 5-6.)

AEP-Ohio is receiving carrying charges on the rider revenue. Despite the Company's representations that gridSMART spending and expenditures would be more closely aligned after the agreement with USDOE was finalized, the Company has consistently over-collected.[10] Rather than to impose interest on the over-collection at this time, we direct AEP-Ohio to offset the revenue requirement by the over-collection amount. Further, we direct AEP-Ohio to periodically evaluate, prior to the filing of the next update application, the rate of spending and collections to avoid either a significant over or under recovery and, if appropriate, to request an adjustment of the gridSMART rider rate. Otherwise, the Commission may impose interest on any over-collection.

(6) Other Issues

AEP-Ohio states that as filed, the instant gridSMART application incorporated the carrying cost rates approved in the ESP 1 proceeding as modified by subsequent rider filings. The Company notes that the modified ESP 2 Order issued on August 8, 2012, included merged carrying cost rates which reflected a 10.2 percent return on equity, as shown in exhibit RVH-4 attached to Company witness Hawkins' testimony in that case. AEP-Ohio requests the Commission approve the use of these merged rates in the 2012 revenue requirement calculation and rates for the gridSMART rider. Further, the modified ESP 2 Order approved the Company's proposal to merge the gridSMART rider rate and begin billing both rate zones for the gridSMART project. The Company further requests to unify the rate through the filing of a compliance schedule to comply with the Commission's Order in this case. (AEP-Ohio Reply Comments at 8.)

In light of the Commission's decision in the modified ESP 2 Order on the Phase 1 gridSMART rider mechanism and the adjustments ordered in this Finding and Order, we find the Company's requests to submit a compliance schedule consistent with the Orders for the Commission's consideration and approval, to be reasonable and, accordingly, the request is granted.

As OP acknowledges, the Commission's approval of the gridSMART Phase 1 project was contingent upon the Company pursuing and receiving ARRA funds from USDOE.[11] To better facilitate the Commission's review of the gridSMART Phase 1 mechanism and the prudency of expenditures, the Commission directs OP to submit with all future rider update applications, summary and detailed gridSMART Phase 1 expenses

---

10 Application in Case No. 10-164-EL-RDR at 4-5 and Attachment B (February 11, 2010);

11 *In re AEP-Ohio ESP 1 cases*, Order at 38.

(PNNL expense, company expense or vendor in-kind contribution) information designated by the source of recovery of the expense (ARRA or gridSMART rider mechanism) or other format as requested by Staff.

It is, therefore,

ORDERED, That OCC's motion to intervene be granted. It is, further,

ORDERED, That AEP-Ohio's motion to supplement its reply comments and request for expedited ruling is granted. It is, further,

ORDERED, That AEP-Ohio shall file a compliance schedule and proposed tariffs consistent with this Order, subject to review and approval by the Commission. The proposed tariffs shall be filed with the Commission within seven calendar days after the issuance of this Order. It is, further,

ORDERED, That OP include with all subsequent gridSMART Phase 1 update applications, summary and detailed expense information as discussed in this Order. It is, further, ORDERED, That a copy of this Finding and Order be served upon all persons of record in this case.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Todd A. Snitchler, Chairman

Steven D. Lesser

Andre T. Porter

Cheryl L. Roberto

Lynn Slaby

GNS/vrm

Entered in the Journal

OCT 03 2012

Barcy F. McNeal

Barcy F. McNeal
Secretary