

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission's Review)
of Ohio Power Company's Distribution) Case No. 12-3129-EL-UNC
Investment Rider Plan.)

FINDING AND ORDER

The Commission finds:

- (1) Ohio Power Company d/b/a AEP Ohio (AEP Ohio or the Company)¹ is a public utility as defined in Section 4905.02, Revised Code, and, as such, is subject to the jurisdiction of this Commission.
- (2) On August 8, 2012, the Commission issued its opinion and order in Case No. 11-346-EL-SSO, *et al.*, which approved, with certain modifications, AEP Ohio's application for a standard service offer in the form of an electric security plan (ESP), in accordance with Section 4928.143, Revised Code (ESP Case).² Among other provisions of the ESP, the Commission modified and approved AEP Ohio's proposed Distribution Investment Rider (DIR), specifically finding that adoption of the DIR and the Company's replacement of aging infrastructure will facilitate improved service reliability. Additionally, the Commission directed AEP Ohio to work with Staff to develop a DIR plan to emphasize proactive distribution maintenance that focuses spending on where it will have the greatest impact on maintaining and improving reliability for customers. The Commission further directed that AEP Ohio should file the DIR plan for Commission review in a separate docket by December 1, 2012. (ESP Case Order at 46-47.)

¹ By entry issued on March 7, 2012, the Commission approved and confirmed the merger of Columbus Southern Power Company (CSP) into Ohio Power Company (OP). *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.

² *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 11-346-EL-SSO, *et al.*, Opinion and Order (August 8, 2012) (ESP Case Order); Entry on Rehearing (January 30, 2013) (ESP Case Entry on Rehearing).

- (3) On December 3, 2012, in the above-captioned case, AEP Ohio filed the DIR plan developed with Staff, as required by the Commission in the ESP Case Order. In its filing, AEP Ohio recommends a process for review of the components of the DIR plan for 2013 and 2014, and proposes a timeframe for comments from interested parties.
- (4) By entry issued on December 12, 2012, a procedural schedule was established to assist the Commission in its review of AEP Ohio's DIR plan.
- (5) On various dates, motions to intervene in this proceeding were filed by The Kroger Company (Kroger); OMA Energy Group (OMAEG); Ohio Hospital Association (OHA); and Ohio Consumers' Counsel (OCC). No memoranda contra were filed. Upon consideration of the motions to intervene, the Commission finds that the motions to intervene are reasonable and should be granted.
- (6) In accordance with the established procedural schedule, initial comments were filed on January 18, 2013, by OHA, OCC, OMAEG, and Staff. Timely reply comments were filed on February 1, 2013, by OMAEG, OCC, AEP Ohio, and Kroger.

Staff Comments

- (7) In its comments, Staff indicates that AEP Ohio worked with Staff to develop a DIR plan with programs that, on an overall basis, are expected to result in improved reliability performance across the Company's entire service territory. Staff notes that whether this expectation is achieved will depend on the level of expenditures for those programs that will improve or maintain reliability. Staff cautions that it does not know whether the planned expenditure levels are sufficient, and, therefore, Staff intends to monitor AEP Ohio's implementation of the programs, as well as any improvements in the Company's overall reliability.
- (8) Additionally, Staff outlines a number of expectations for AEP Ohio with respect to the DIR plan. Specifically, Staff expects AEP Ohio to provide quarterly written status reports in 2013 that include specific information regarding the overall

implementation of the DIR plan, as well as each capital program in the plan.

- (9) In its reply comments, AEP Ohio notes that, while it can provide the information sought by Staff, the Company has concerns related to the purpose and use of the quarterly reports, because the DIR plan is expected to evolve and the Company's intention is not to exactly meet the spending level for each program. AEP Ohio argues that it should have the flexibility to spend DIR funds prudently, if the Company finds that investment in one program is better suited to another program. If a major change is planned, AEP Ohio notes that Staff will be informed through its ongoing involvement in the review process. AEP Ohio contends that programs with no reliability impact, such as customer service work, should not be held to the same level of reporting detail. AEP Ohio states that it will report only the overall spending level for these types of customer-driven programs. AEP Ohio adds that it will continue to work with Staff to develop the appropriate filing dates, because data is not always immediately available after each quarter ends.
- (10) Staff next recommends that AEP Ohio be required to work with Staff in the fourth quarter of 2013 to develop a DIR plan for 2014, consistent with the schedule proposed in Staff's comments. Staff adds that AEP Ohio should keep Staff informed with regard to ongoing program-specific construction activities.
- (11) AEP Ohio responds that Staff's proposed schedule should be viewed as a guideline and that the process should be subject to change if necessary. AEP Ohio believes that the Commission should encourage Staff and the Company to follow a similar type of process to develop the DIR plan for 2014. AEP Ohio argues that the focus should remain on the needs of customers and the system through a collaborative process rather than adherence to a particular schedule.
- (12) In its comments, Staff also recommends that AEP Ohio be required to quantify actual reliability improvements achieved for those programs that are expected to reduce the frequency and/or duration of outages, as well as quantify the outages avoided for those programs that are expected to maintain

reliability, and provide Staff the information in writing by February 28, 2014. Additionally, Staff recommends that AEP Ohio reflect the impact of implementation of the DIR plan in more stringent future reliability standards to be proposed in 2016.

- (13) AEP Ohio responds that the quantification of the actual reliability improvements achieved for the programs in the DIR plan is an issue that will be studied in the ongoing interaction between Staff and the Company. AEP Ohio notes that it is currently unclear as to whether Staff is seeking verification of the reliability results that are shown in the DIR plan or something more than what is already reflected in the plan. AEP Ohio notes that it would be difficult to show reliability improvement across the entire system or to show improvement based on a proactive infrastructure replacement program. AEP Ohio points out that Staff's monitoring will help to determine the impact of the DIR plan. With respect to Staff's recommendation that AEP Ohio propose more stringent reliability standards in 2016, the Company responds that the reliability standards may be set using historical data for 2013 through 2015 that would already reflect the impact of the DIR plan. AEP Ohio argues that an adjustment to further account for the DIR plan would, therefore, artificially lower the Company's reliability standards. AEP Ohio adds that, if Staff believes the impact of the DIR plan should be considered in setting the Company's reliability standards, the proper time and place is in the case that will actually establish the new reliability standards rather than the present case.
- (14) OCC responds that Staff's comments demonstrate the inadequacy of the DIR plan's compliance with the ESP Case Order, noting that there is no quantification of reliability improvements, no mechanism to prevent double recovery, and no evidence that DIR spending is incremental to prior spending levels. OCC notes that Staff recognizes that some of the programs in the DIR plan are expected to have no impact on service reliability. OCC further notes that Staff admits that it does not know whether the DIR plan will have an impact on service reliability, despite the Commission's direction to AEP Ohio and Staff to work together to develop a plan with quantified reliability improvements that would ensure prudent expenditures. OCC points out that Staff's comments

provide no indication as to whether Staff determined that planned DIR expenditures are incremental to expenditures normally planned under AEP Ohio's capital budget. OCC also calls attention to the fact that Staff indicated that it does not know whether AEP Ohio's planned DIR expenditures for programs that are expected to improve or maintain reliability are sufficient to improve service reliability across the Company's entire service territory.

- (15) Additionally, OCC argues that Staff expects AEP Ohio to quantify the reliability impact of each DIR program after the Company has already spent the DIR funds, rather than quantify the impact in the DIR plan before the spending occurs, as required by the Commission. OCC also contends that Staff failed to address the lack of sufficient information in the DIR plan to enable a meaningful annual review of the DIR, which is required by the ESP Case Order. OCC notes that Staff's comments provide no details regarding how or when the effectiveness of DIR investments will be reviewed or how and when the annual DIR audits will be conducted. OCC believes that the parties should have an opportunity for due process in evaluating the prudence of DIR expenditures and that all DIR-related reports should be publicly filed by AEP Ohio.

OHA Comments

- (16) OHA comments that it generally supports AEP Ohio's proposed DIR plan and believes that the plan should remain fluid and open to future refinements. In its reply comments, AEP Ohio notes that the DIR plan accommodates the need to address issues as they arise and, therefore, will provide the flexibility advocated by OHA.

OMAEG Comments

- (17) OMAEG recommends that AEP Ohio prioritize integrated volt-var systems and other distribution investments for manufacturers and that the Company consider the economic impact of grid outages. OMAEG argues that grid outages can more severely impact the fiscal health of manufacturers than other businesses, and, therefore, AEP Ohio should develop geographic prioritization for manufacturers and

manufacturing organizations. In its reply comments, OMAEG affirms its initial comments and expresses general support for AEP Ohio's DIR plan.

- (18) OCC responds that it shares OMAEG's concern regarding the impact of outages on customers. OCC notes that the health and safety of residential customers are severely impacted by outages and that significant economic losses often result. OCC argues that the Commission must require AEP Ohio to demonstrate the benefit of DIR investments through a cost benefit analysis and to structure the DIR plan so as to ensure that all customers are receiving quantified service reliability benefits. With respect to OMAEG's recommendation that AEP Ohio prioritize integrated volt-var systems, OCC notes that the Company's description of its integrated volt-var systems program indicates that there is no reliability impact, and, therefore, the program should not be included in the DIR plan, according to OCC.
- (19) In response to OMAEG's comments, AEP Ohio notes that integrated volt-var systems for manufacturers are premature at this point, because the systems are still being tested to determine their benefits. Additionally, AEP Ohio explains that the prioritization reflected in the DIR plan is based on multiple factors that will vary by program, such as age of infrastructure and number of specific equipment outages, and, therefore, priority will be driven by the work needing to be completed first.

OCC Comments

- (20) In its comments, OCC argues that customers are not receiving the quantified benefits in reliability that AEP Ohio is required to provide. OCC, therefore, urges the Commission to reject AEP Ohio's DIR plan or, in the alternative, to set the matter for hearing pursuant to Rule 4901:1-10-10(B)(6), Ohio Administrative Code (O.A.C.). Additionally, OCC contends that the Commission should direct AEP Ohio to quantify the reliability improvements for its proposed projects, which, according to OCC, is specifically required by the terms of the ESP Case Order. If AEP Ohio does not quantify the reliability improvements, OCC believes that customers should not be expected to pay for the projects proposed in the DIR plan.

- (21) AEP Ohio replies that it has complied with the terms of the ESP Case Order, by including, where applicable, an expected reliability improvement for each program in the DIR plan. AEP Ohio notes that, in some cases, such as proactive distribution infrastructure replacement, a reliability improvement is not expected, because the work is intended to address future outages and ensure that system performance does not deteriorate, and, therefore, no improvement is reflected in the DIR plan.
- (22) Similarly, OCC asserts that AEP Ohio should be required to identify the level of incremental spending planned for each project in the DIR plan, separate from baseline projected expenditures, consistent with the Commission's directive in the ESP Case Order that the DIR plan must ensure no double recovery from customers. OCC argues that it is unclear which projects will be included in AEP Ohio's capital budget plan and which projects will be incrementally funded under the DIR plan. In the absence of more detailed information, OCC contends that customers are not protected against double recovery and that the Commission-ordered annual review of the DIR for accounting accuracy and prudence will not be possible.
- (23) AEP Ohio responds that recovery of funds through the DIR will be audited by the Commission to ensure double recovery does not occur. AEP Ohio adds that it has demonstrated that DIR spending is above the Company's recent spending levels. AEP Ohio argues that it has fully explained each program, including its benefits and expenditure level. AEP Ohio also notes that some of the data sought by OCC is available in annual reports filed by the Company. AEP Ohio emphasizes that the Commission has already established an audit process and that Staff will be working with the Company throughout the term of the DIR. AEP Ohio notes that the DIR plan is the result of a lengthy collaboration with Staff and that the Commission can modify the plan as it sees fit, without the need for a hearing.
- (24) OCC also points out that the description of each component of the DIR plan fails to demonstrate how it would improve or even impact service reliability, or even show the number of associated historical outages. OCC urges the Commission to

reject any component of the DIR plan that fails to demonstrate an improvement in service reliability, including nine specific programs identified in the DIR plan as having no impact on AEP Ohio's service reliability.

- (25) In its reply comments, AEP Ohio states that OCC misunderstands the scope of the DIR. AEP Ohio contends that the DIR is a means to earn a capital return on the dollars invested, before a rate case is filed, and can include day-to-day capital investment items. AEP Ohio notes that the Commission approved the DIR to maintain reliability, as well as the general alignment of customer and utility service expectations (ESP Case Entry on Rehearing at 48). AEP Ohio points out that the programs included in the DIR plan are related to the investment in the distribution operations pertaining to customer service and may involve maintaining all aspects of reliability, including proactive replacement of equipment before it fails.
- (26) Further, OCC recommends that the components of the DIR plan should be separated for the CSP and OP rate zones, because the distribution rates and reliability performance standards are different for each zone. Without separate project information for CSP and OP, OCC argues that there is no way in which to determine the effect of the DIR plan on the reliability performance standards for CSP and OP. In its reply comments, Kroger agrees with OCC's recommendation, as it is consistent with the principle of cost causation and would allow for greater precision in assigning costs.
- (27) AEP Ohio responds that the Commission already explained that the DIR plan is a new plan intended to address the distribution system of the Company as a whole, rather than its former parts. Specifically, AEP Ohio points out that, in the ESP Case Entry on Rehearing, the Commission denied Kroger's request to separate the DIR by rate zone (ESP Case Entry on Rehearing at 46-47). AEP Ohio adds that OCC's recommendation would require separate operations, tracking mechanisms, filings, and audits, which is impossible now that CSP and OP are legally merged, and contrary to the reasons for approval of the merger in the first place.

- (28) Additionally, OCC recommends that AEP Ohio's proposed auto-approval process for its DIR plan for 2014 be rejected, because it is unjust, unreasonable, and contrary to due process. OCC further recommends that, if the Commission does not reject the DIR plan, it should set the matter for hearing pursuant to Rule 4901:1-10-10(B)(6), O.A.C.
- (29) AEP Ohio responds that the DIR is just and reasonable, and was approved by the Commission in the ESP Case following a transparent and fair hearing. AEP Ohio notes that the Commission denied OCC's various arguments with respect to the DIR on rehearing. AEP Ohio adds that its filing in this docket was intended to provide notice of the DIR plan developed with Staff and that this case is not intended to involve a hearing to review DIR expenses. AEP Ohio argues that it should be permitted to implement the DIR plan under the Commission-ordered review process that is already in place.
- (30) Finally, OCC maintains that customer and utility expectations concerning reliability are not aligned as required by Section 4928.143(B)(2)(h), Revised Code, pointing to Staff's comments in Case No. 12-1945-EL-ESS regarding deficiencies in the reliability survey conducted by AEP Ohio.³ OCC argues that additional analysis of reliability expectations should be performed before customers are required to pay for the projects in the DIR plan.
- (31) AEP Ohio replies that OCC attempts to expand the scope of this proceeding to include issues from other cases that are unrelated to the DIR plan. AEP Ohio contends that its reliability survey is not a proper issue for consideration in the present case. AEP Ohio also asserts that OCC's arguments with respect to the alignment of customer and utility expectations amount to an improper attempt at rehearing of the ESP Case Order and should, therefore, be rejected. AEP Ohio notes that the Commission already rejected the same argument from OCC in the ESP Case Entry on Rehearing.

³ *In the Matter of the Application of Ohio Power Company for Establishing New Reliability Targets*, Case No. 12-1945-EL-ESS.

Commission Conclusion

- (32) In the ESP Case Order, the Commission found that the DIR would facilitate improved service reliability through the replacement of aging infrastructure and, therefore, approved the DIR as an appropriate incentive to accelerate recovery of AEP Ohio's prudently incurred distribution investment costs. The Commission, however, noted that approval of the DIR requires oversight. With that in mind, we directed AEP Ohio to work with Staff to develop a plan to emphasize proactive distribution maintenance that focuses spending on where it will have the greatest impact on maintaining and improving reliability for customers. The Commission indicated that the plan must quantify the reliability improvements expected, ensure no double recovery, and include a demonstration of DIR expenditures over projected expenditures and recent spending levels. We further indicated that the DIR would be reviewed annually for accounting accuracy, prudence, and compliance with the DIR plan. (ESP Case Order at 46-47.)

The document that was filed by AEP Ohio as its 2013 DIR plan is comprised of a chart listing the plan components, with columns showing a description of each component, measures for reliability improvements, equipment affected, and projected expenditures. However, the document 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.

- (33) Therefore, the Commission directs AEP Ohio to quantify, as detailed in paragraph (c) below, the actual reliability improvements achieved as a result of implementing the 2013 DIR plan and to file this data in conjunction with Staff's review of the Company's compliance with the 2013 DIR plan. Regarding the question of whether DIR spending exceeds capital spending in recent years, we direct Staff to verify, as part of its review of AEP Ohio's compliance with the 2013 DIR plan, that the Company's actual 2013 DIR spending did achieve such higher levels. Finally, regarding the issue of double recovery, the Commission expects this subject to be addressed in the annual audit of DIR expenditures. Our

acceptance of AEP Ohio's 2013 DIR plan is contingent upon a positive outcome with respect to each of these next steps.

- (34) Additionally, the Commission finds that Staff's recommendations, as set forth in Staff's comments, are reasonable and should be adopted with respect to AEP Ohio's 2013 DIR plan:
- (a) AEP Ohio is directed to provide Staff written status reports, on a quarterly basis, regarding the overall implementation of the DIR plan, as well as each capital program in the plan, consistent with Staff's recommendation. Among any other pertinent information, each status report shall include: (1) for each program, a statement of year-to-date expenditures, both as a dollar amount and as a percentage of the planned total for 2013, and a comparison of that percentage against the percentage of the year completed to date, with an explanation for any variances exceeding 10 percent; (2) for each program, a quantification of activities or work units completed for the year to date, both as a numerical quantity and as a percentage of the total planned for 2013, and a comparison of that percentage against the percentage of the year completed to date, with an explanation for any variances exceeding 10 percent; and (3) for the plan as a whole, a statement of year-to-date expenditures, both as a dollar amount and as a percentage of the total planned for 2013, and a comparison of that percentage against the percentage of the year completed to date, with an explanation for a variance of more than 10 percent.
 - (b) AEP Ohio is directed to inform Staff regarding ongoing program-specific construction activities such that Staff may perform field verification of facility installations as they occur.
 - (c) AEP Ohio is directed 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.

- (35) With the above provisions in place, the Commission finds that many of OCC's concerns regarding AEP Ohio's 2013 DIR plan and its compliance with the ESP Case Order are appropriately addressed, and that a hearing in this matter is, therefore, unnecessary. Additionally, we note again that the DIR will be reviewed annually for accounting accuracy and prudence, and any concerns regarding AEP Ohio's DIR spending should be raised at that time. With respect to OCC's arguments that the DIR components should be separate for the CSP and OP rate zones, and that customer and utility expectations regarding reliability are not aligned, we find that such arguments have already been considered and rejected by the Commission in the ESP Case (ESP Case Order at 46; ESP Case Entry on Rehearing at 46-48). Finally, although AEP Ohio's DIR spending should be focused on those components that will best improve or maintain reliability, we disagree with OCC's argument that components with no reliability impact should not be included in the DIR plan. Although a primary objective of the DIR is to enable AEP Ohio to improve or maintain its service reliability, the DIR also provides the Company with a timely cost recovery mechanism for its prudently incurred distribution infrastructure investment costs and is expected to reduce the frequency of base distribution rate cases. Accordingly, as proposed by AEP Ohio and approved by the Commission in the ESP Case, the DIR consists of net capital additions to gross plant in service occurring after August 31, 2010, as adjusted for accumulated depreciation (ESP Case Order at 42), and is not limited to investment in distribution assets that are expected to improve or maintain service reliability.
- (36) Regarding Staff's remaining recommendations, the Commission notes that it is our expectation that AEP Ohio will propose more stringent reliability performance standards in its next application to establish such standards pursuant to

Rule 4901:1-10-10, O.A.C., in light of the improved service reliability that is expected to result from the DIR investments.

- (37) Further, given that the DIR provides AEP Ohio with the significant benefit of accelerated cost recovery for its distribution investments, the Commission believes that the DIR plan should guide the Company in planning and prioritizing such investments. With respect to the 2013 DIR plan, Staff's comments indicate that AEP Ohio explained to Staff how certain DIR components are expected to maintain or improve reliability, although no explanation is reflected in the Company's plan. Likewise, although Staff analyzed AEP Ohio's historical outage-by-cause data to identify the primary controllable outage causes, evaluated the projected expenditures for each DIR component, and ranked each component in some fashion, Staff's analysis is not reflected in the plan that was filed by the Company.

The Commission, therefore, directs AEP Ohio to not only work with Staff to develop the 2014 DIR plan, in accordance with Staff's proposed schedule, but to also incorporate Staff's input and analysis into the plan that is filed with the Commission. The 2014 DIR plan should include comparable provisions to incorporate Staff's specific recommendations as listed above in paragraphs (a) through (c). Additionally, AEP Ohio's 2014 DIR plan should explain the Company's strategy for replacing its aging infrastructure and focusing DIR spending on where it will best improve or maintain reliability. Consistent with the directives of the ESP Case Order, the 2014 DIR plan should quantify the expected reliability improvements, explain how AEP Ohio will ensure that double recovery does not occur, and demonstrate that DIR expenditures will exceed the Company's recent capital spending levels. Finally, the 2014 DIR plan should address how AEP Ohio intends to ensure that its DIR expenditures are sufficient to result in improved reliability performance across the Company's entire service territory, based on the combined impact of the DIR investments. Consistent with Staff's recommendation, AEP Ohio should file the 2014 DIR plan by December 15, 2013.

It is, therefore,

ORDERED, That the motions to intervene in this proceeding filed by Kroger, OMAEG, OHA, and OCC be granted. It is, further,

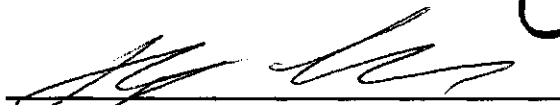
ORDERED, That AEP Ohio implement its 2013 DIR plan, consistent with the terms of this finding and order. It is, further,

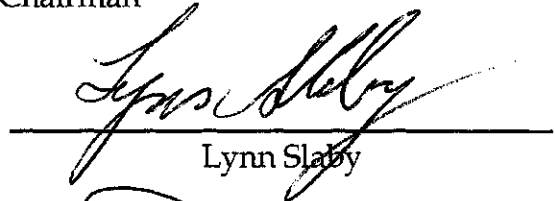
ORDERED, That AEP Ohio develop its 2014 DIR plan, in coordination with Staff, consistent with the terms of this finding and order. It is, further,

ORDERED, That a copy of this finding and order be served upon all parties and other interested persons of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO


Todd A. Snitchler, Chairman


Steven D. Lesser

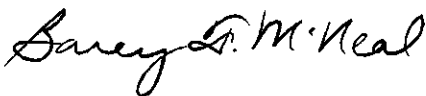

Lynn Slaby


M. Beth Trombold

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Entered in the Journal

MAY 29 2013



Barcy F. McNeal
Secretary