

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

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**REPLY COMMENTS**  
SUBMITTED ON BEHALF OF THE STAFF OF  
THE PUBLIC UTILITIES COMMISSION OF OHIO

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**BACKGROUND**

On June 20, 2013, Blue Ridge Consulting Services, Inc. (Blue Ridge), an independent auditor selected by the Commission Staff (Staff), with the consent of Ohio Power Company (Company), filed a Compliance Audit Report (Report) of the distribution Investment Rider (DIR) of the Company. On June 20, 2013, the Staff filed Comments recommending that the Commission adopt the proposals made in the Blue Ridge Report. On August 2, 2013, the Company and the Office of Consumers' Counsel (OCC) filed comments addressing the Blue Ridge Report. Staff timely files its Reply Comments, recommending that the Commission adopt the recommendations made in the Blue Ridge Report and certain of OCC's recommendations.

## **DISCUSSION**

### **I. NET PLANT ADJUSTMENTS**

#### **A. AMI gridSMART Meter Adjustment**

In its August 8, 2012 Standard Service Offer (SSO) Order in Case No. 11-346-EL-SSO, *et al.*, the Commission stated that gridSMART investments should not be recovered through the Company's DIR. In the Company's comments, it indicates that 22,000 AMI meters were purchased in anticipation of a larger, subsequently disapproved, gridSMART pilot, that they were purchased to provide replacements for any gridSMART pilot meters that subsequently failed, and that they were purchased to "fill in holes" in the gridSMART pilot area. These meters were purchased with the intention of being used as part of the Company's gridSMART deployment. As such, the Company has inappropriately included these costs in the DIR. In an attempt to provide support for the recovery of these meters in the DIR, the Company points to one lone word, "subsequent," in the Commission's SSO Order at page 63. However, the Company uses this word out of context and ignores the language around this word. On page 62, the Commission states the only gridSMART technology it will permit to be recovered in the DIR is IVVC. The remaining technology is considered by the Commission as gridSMART technology and therefore is not to be recovered in the DIR. Specifically, the Commission states, "Any gridSMART investment beyond the Phase 1 pilot, which is not subject to recovery through the DIR mechanism, (*sic* IVVC), should be recovered through a mechanism other than the current gridSMART rider, for example, through a gridSMART Phase 2 rider.

The current gridSMART rider allows for recovery of an ‘as spent’ basis, with audits, directed toward truing-up expenditures with collections through the rider rate. Keeping subsequent non-DIR, gridSMART expenditures in a new separate recovery mechanism facilitates enforcement and a Commission determination that recovery of gridSMART investment occur only after the equipment is installed, tested, and is in-service.” The use of the word “subsequent” was solely directed at AEP Ohio’s specific request to recover future gridSMART costs in the DIR. The general Commission directive regarding this matter can also be found on page 46 in its discussion of the DIR. There, the Commission stated, “We emphasize that the DIR mechanism shall not include any gridSMART costs; the gridSMART projects shall be separate and apart from the DIR mechanism and projects.” As this case was the commencement of the DIR mechanism for AEP, the Commission’s use of the word “any” clearly indicated its intent that no gridSMART costs (other than IVVC) be recovered in the DIR. Lastly, the Company argues that these AMI costs were not included in the gridSMART request for cost recovery; therefore, these AMI costs must be recovered through the DIR. In order for the Commission to accept this circular logic it would have to concur that costs can be categorized at will by AEP based upon in which rider AEP chooses to recover the investment. The Commission should not accept this logic. The fact that the Company failed to include these costs in the gridSMART Rider does not make them costs that are eligible for recovery through the DIR and the Commission has clearly stated that such costs are not recoverable through the DIR.

### **B. Vegetation Management Adjustment**

Staff concurs with OCC that the amount of net plant associated with Vegetation Management of \$21,513,289 is the correct figure to be used in the DIR.

### **C. Land Held for Future Use Adjustment**

Staff concurs with OCC the net plant balance should be adjusted to remove the land held for future use that was previously disallowed by the Commission.

### **D. FERC Account 370.16 Adjustment**

Staff concurs with AEP Ohio that Blue Ridge overstated the amount of the AMI meters included within FERC Account 370.16. The amount should be \$9.4 million rather than \$15.2 million.

## **II. CARRYING CHARGE CALCULATION**

### **A. Commercial Activity Tax**

OCC contends that the carrying charge rate should exclude the Commercial Activity Tax (CAT) to prevent double recovery. Staff agrees with this position. It is Staff's belief that the carrying charge rate includes four components, Pre-tax WACC, Weighted Average Property Tax, CAT, and an Average Depreciation Rate. However, embedded in the Pre-tax WACC is a revenue tax conversion factor that grosses up revenues for taxes, including CAT. Therefore, the CAT is inappropriately being double recovered. It is Staff's recommendation that the CAT component of the carrying charge rate (0.26%) be

excluded and that CAT remains as part of the revenue tax conversion embedded in the Pre-tax WACC.

## **B. Uncollectible Expense**

OCC argues that the carrying charge rate should not include the uncollectible accounts expense as it was not authorized by the Commission as part of the company's SSO Opinion and Order. Staff agrees that an unaccountable accounts expense was not authorized and should not be included in the carrying charge rate calculation.

## **C. Weighted Average Cost of Capital**

OCC agrees with the Blue Ridge recommendation that the weighted average cost of capital should be used to compute the carrying charge rate. Blue Ridge's findings state:

The Revenue Tax Conversion grosses-up the weighted cost of capital to its pre-tax value. Blue Ridge found that the Company used Ohio Power's revenue tax conversion factor of 1.57405 that was included within the Case No. 11-351-EL-AIR Settlement. The Columbus Southern revenue tax conversion factor included in the Settlement is 1.563311. AEP-Ohio used a weighted average for the other components of the carrying charge rate. For consistency, the revenue tax conversion factor should also be calculated using a weighted average."

Staff agrees with Blue Ridge and OCC in that the revenue tax conversion factor should be calculated using a weighted average.

### **III. RECONCILIATION DEMONSTRATION**

Staff concurs with Blue Ridge and OCC that the Company should provide in its future quarterly filings explicit worksheets demonstrating the reconciliation of revenue requirement to revenue recovery.

### **IV. DISTRIBUTION INFRASTRUCTURE PROGRAM ASSESSMENT**

In addition to the Blue Ridge Compliance Report, on June 20, 2013, Staff filed comments evaluating AEP Ohio's implementation of DIR infrastructure projects during the year 2012. On August 2, 2013, the Ohio Consumers' Counsel (OCC) filed comments taking issue with Staff's comments. The following is Staff's response to OCC's comments.

In general, OCC alleges that the Staff's review of AEP Ohio's 2012 progress in implementing distribution infrastructure programs was inadequate and that it failed to address the quantifiable reliability improvements that the Commission mandated in AEP Ohio's Electric Security Plan proceeding. OCC's position is based on a misunderstanding of the Commission's directive, in the ESP case, that the DIR be subject to annual review for accounting accuracy, prudence, and compliance with the DIR plan. The plan to which the commission referred is the same plan that the Commission directed Staff and AEP Ohio to develop and file by December 1 of 2012. However, that plan applied to the year 2013, not 2012 as OCC implies.

In fact, there was no directive for Staff to review AEP Ohio's progress in implementing DIR programs in 2012. Staff took the initiative to undertake such a review, the



purpose of which was to determine whether AEP Ohio was spending more on proactive infrastructure programs and those that are expected to improve reliability. To make that determination, Staff compared spending on such programs against comparable spending during the prior three years, and found that spending on the proactive/reliability programs had increased by 22 percent.

On page 2, OCC states that the Commission Order required AEP Ohio and Staff to quantify reliability improvements that were expected as a result of the DIR funding. OCC is correct, but that requirement applied to the DIR plan that is being implemented in 2013, not the 2012 implementation that Staff reviewed in this case. OCC also states that the Commission Order required AEP Ohio and Staff to focus DIR spending where it will have the greatest impact on maintaining and improving reliability. Again, that is correct, but the requirement only applies to the plan that is being implemented in 2013, not the 2012 implementation that Staff reviewed. Staff's review, however, is consistent with the Commission's directive in that its purpose, as stated above, was to determine whether AEP Ohio was spending more on proactive infrastructure programs designed to maintain the existing system reliability levels as well as those that are expected to improve reliability.

On page 3, OCC states "there is no indication (in the PUCO Staff's comments) that 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." That claim is incorrect. Staff did analyze DIR expenditures by program in order to measure their increase over comparable spending in prior years.

If OCC is referring to a detailed examination of specific charges and supporting documentation, those financial audit tasks were performed by the Blue Ridge auditor, whose report was filed in this case on June 20, 2013.

On page 4, OCC claims that Staff's comments did not accomplish the purpose of determining whether AEP Ohio spent more on proactive infrastructure programs and those that are expected to have a positive impact on reliability. Again, OCC is incorrect. Based on its analysis, Staff did accomplish its purpose and concluded in its comments that AEP Ohio, "met expectations for increasing 2012 proactive/reliability DIR expenditures over comparable expenditures in the prior three years."

On page 5, OCC argues that since proactive/reliability expenditures comprised only 25 percent of total DIR expenditures, then only that amount should be allowed DIR recovery. This argument rests on the mistaken assumption that only proactive/reliability investments should be recovered through the DIR. This issue is clarified by the Commission's Finding and Order in Case No. 12-3129-EL-UNC. Finding (35) of the Order states clearly that the DIR Rider, "is not limited to investment in distribution assets that are expected to improve or maintain service reliability." Accordingly, OCC's claim is inappropriate.

Finally, on page 6 OCC argues that Staff should be required to identify each proactive/reliability program and describe how the program contributes to improve reliability. It is unclear precisely where OCC wants such identification and description to occur, but Staff assumes that OCC was already served this information during this case, since AEP OHIO provided the information in response to Staff's initial data request.

## CONCLUSION

As noted in these comments, there are some necessary adjustments that must be made to the DIR revenue requirement calculation and the Commission should order Ohio Power to make these corrections in its next DIR filing. With these changes, Ohio Power's DIR applications will be in compliance with the Commission's Order.

Respectfully submitted,

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*/s/ Thomas W. McNamee* \_\_\_\_\_

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## PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Reply Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail upon the following Parties of Record, this 16<sup>th</sup> day of August, 2013.

/s/ Thomas W. McNamee

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Summary: Reply Comments submitted by Assistant Attorney General Thomas McNamee on behalf of the Staff of the Public Utilities Commission of Ohio. electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio