BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	
Ohio Power Company to Initiate	)	
Phase 2 of its gridSMART® Project	)	**Case No. 13-1939-EL-RDR**
and to Establish the gridSMART®	)	
Phase 2 Rider	)	

OHIO POWER COMPANY'S REPLY COMMENTS

Filed: November 18, 2013

TABLE OF CONTENTS

Page

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	
Ohio Power Company to Initiate	)	
Phase 2 of its gridSMART® Project	)	**Case No. 13-1939-EL-RDR**
and to Establish the gridSMART®	)	
Phase 2 Rider	)	

OHIO POWER COMPANY'S REPLY COMMENTS

I. INTRODUCTION

Ohio Power Company ("AEP Ohio" or "Company") filed its Application in this proceeding on September 13, 2013, seeking to initiate Phase 2 of its gridSMART® project and to establish the gridSMART® Phase 2 rider. As discussed in the Application, the Public Utilities Commission of Ohio ("Commission") directed the Company to initiate Phase 2 through a new gridSMART® application in its Opinion and Order in the Company's second electric security plan proceeding (Case Nos. 11-346-EL-SSO *et al.*, hereinafter "ESP II").

Interveners filed Initial Comments on the Company's Application on November 1, 2013. Pursuant to the procedural schedule established in the attorney examiner's October 2, 2013 Entry, AEP Ohio hereby files its reply comments. The Company has organized its comments by topic, rather than by commenter, and focuses on those topics that have received the most comments.

II. AEP OHIO REPLY COMMENTS

A. Scope of the Phase 2 Project

The proposed scope of the gridSMART® Phase 2 project is based on numerous factors, such as lessons learned from the successful implementation of Phase 1, budget restraints and customer bill impacts. The Company has attempted to strike a reasonable balance between these three factors in defining the technologies and number of units to be deployed as part of Phase 2. Many interveners request that the Company include an expanded scope in the Phase 2 project, yet within the same set of comments show concern as it relates to the costs of the plan (OCC page 2 & 3). One example is the difference in opinion on the scope of the Volt/Var Optimization (VVO) and the Distribution Automation Circuit Reconfiguration (DACR). While many interveners state that the scope of VVO and DACR deployment should be increased to additional circuits, others comment that with an increased scope comes a question of less benefit for the additional circuits than for initial circuits (Environmental Advocates page 8). The Company recognizes this cost-benefit tension. The Company has chosen the proposed scope for the VVO and DACR programs in order to focus first on those circuits in which the technology can provide the greatest benefit for the Company and its customers.

Certain intervenors request an expanded Phase 2 project scope to include implementation of prepaid meters, additional functionality related to Green Button, continuation of Phase 1 programs, studies on distributed generation and the offering of consumer programs with equipment inside the home (Environmental Advocates pages 4 & 6). The Company is not opposed to reviewing the potential for additional types of investment of this nature in the future, but the scope of the Phase 2 project strikes a good balance with a positive cost-benefit analysis taking into consideration budget limitations as well as recognizing the importance of customer bill impacts. The Company remains convinced that the scope of the technologies to be deployed during Phase 2 of the gridSMART® project and the scope of their deployment are appropriate.

B. VVO $20 million Proposal

The Office of the Ohio Consumer's Counsel (OCC) suggests in its comments in this docket (page 22) that the 2009 SEET commitment be used to offset the O&M costs incurred by the Company that is current under review for recovery in Commission Case No. 12-3255-EL-RDR. Staff (pages 7-8) endorses using the VVO investment to satisfy the 2009 SEET obligation but goes on to argue that only amounts exceeding $20 million should be recovered since Staff "believes these funds should not be recoverable, as they represent disgorged earnings that the Commission ordered be returned to benefit ratepayers." As further discussed below, Staff's and OCC's positions are without merit. While AEP Ohio proposed in its Application (page 4) to satisfy its $20 million investment obligation through the VVO investment, the Company reserves the right to withdraw the VVO investment proposal if the unreasonable and unlawful approach advocated by Staff and OCC is adopted – the proposal was always premised on being an investment recovered in rates.

The 2009 SEET capital commitment was one of several factors that the Commission took into account when it established a 17.6% return on equity ("ROE") threshold for CSP in the 2009 SEET Proceeding. Specifically, the Commission stated:

> CSP continues its innovation efforts and dedication to Ohio's energy policy by its commitment to provide $20 million in funding to a solar

> project in Cumberland, Ohio. Not only will this project advance the state's energy policy, but it will also bring much needed economic development activity to Ohio. Various parties noted that this commitment was contingent on several other factors and questioned the appropriateness of giving any consideration to this investment. The Commission remains confident that this project will move forward and the funds will be expended for this project in the near future. Nevertheless, should this project not move forward in 2012, such that the funds are expended in 2012, the Commission requires the $20 million to be spent in 2012 on a similar project.

2009 SEET Case, Opinion and Order (Jan. 11, 2011) at 26-27.

In its Entry on Rehearing in the 2009 SEET Case, the Commission reaffirmed its positive consideration of the $20 million solar project capital commitment in its establishment of CSP's SEET threshold ROE, and it also allowed that some flexibility in the schedule by which AEP Ohio would make the investment was appropriate:

> As part of the Commission's application of the SEET, the Commission gave consideration to CSP's future committed capital expenditure in the [Turning Point] project. Given the Commission's consideration of CSP's expenditure in a solar project in the development of the 2009 SEET threshold, it is reasonable for the Commission to require that the expenditure occur by a date certain. However, we agree that CSP should propose, during the course of its next ESP proceeding, a firm schedule setting forth its expenditure in the [Turning Point] project or other similar project.

2009 SEET Case, Entry on Rehearing (Mar. 9, 2011) at 10. On December 6, 2012, the Supreme Court of Ohio affirmed the Commission's 2009 SEET decision. *See In re Application of Columbus S. Power Co.*, 2012-Ohio-5690, ¶ 2. The Commission's consideration of the $20 million capital commitment in the establishment of CSP's SEET threshold ROE was not a subject of that appeal. Accordingly, the Commission's consideration of that capital expenditure commitment became final at that point and the Commission presently lacks jurisdiction to modify the decision.

Accepting OCC's and Staff's position would retroactively modify the Commission's final order in the 2009 SEET Proceeding, which the Supreme Court of Ohio already affirmed, by converting the capital investment obligation into a $20 million dollar refund obligation. Such a modification, however, is unreasonable and unlawful because the time for modifying or revising the decision made in the 2009 SEET Proceeding has long since passed. Moreover, imposing such a requirement would violate the SEET statute and conflict with the record and decision in the 2009 SEET case.

1. The 2009 SEET Order considered the capital commitment capital provision enumerated in R.C. 4928.143 and the record in the 2009 SEET case; it was never a refund obligation and was not used to reduce the Company's refund obligation by $20 million.

The 2009 SEET Order established the capital commitment in accordance with the committed capital provision in the SEET statute, R.C. 4928.143(F), and based on the record in the 2009 SEET case.

a. The 2009 SEET capital commitment is a consideration of the capital requirements of future committed investments, not a refund otherwise due to ratepayers. R.C. 4928.143.

As described above, the 2009 SEET Order considered AEP Ohio obligation to invest $20 million in the Turning Point project or a similar project – along with a long list of other factors – in establishing the threshold level of earnings above which it would consider any additional earnings as significantly excessive. *Id.* at 25-27. The OCC suggestion in its comments in this case and in the 12-3255-EL-RDR docket that the 2009 SEET capital commitment should instead be used to offset major storm damage costs is inconsistent with the controlling statute, the record in the 2009 SEET proceeding and the final order in that case. The 2009 SEET Order considered AEP Ohio's plan to make a $20 million capital investment. It did not direct AEP Ohio to refund $20 million directly to customers, which is what using the money to offset major storm damage costs would accomplish.

The SEET statute, R.C. 4928.143(F), provides that an electric distribution utility ("EDU") operating pursuant to an electric security plan ("ESP") with a term of less than three years will be subject to an annual test to determine whether it had significantly excessive earnings during the prior year. Specifically, the SEET statute requires the Commission to consider if an EDU's ESP "resulted in excessive earnings" such that the EDU's earned return on common equity was "significantly in excess of" the ROE that publicly traded companies, including utilities, that face comparable business and financial risk earned during the same period. R.C. 4928.143(F). Importantly, the SEET statute also expressly directs the Commission to consider "the capital requirements of future committed investments [by the EDU] in this state." *Id.*

This provision in the SEET statute confers flexibility on the Commission to permit an EDU to retain earnings that might otherwise be considered to be significantly excessive where an EDU has committed to make capital investments in Ohio. Nothing in the SEET statute, however, indicates that such capital investments to be refund obligations or were otherwise "giveaway" investments that would not be recovered in rates. Indeed, the Commission's filing requirement requires submittal with the annual SEET filing of "capital budget requirements for future committed investments in Ohio for each annual period remaining in the ESP." OAC 4901:1-35-03(C)(10)(a)(iii). This filing requirement obviously does not assume that any part of an EDU's entire capital budget is being put up for a free giveway never to be recovered in rates – thus, the rule confirms that capital investments under the SEET statute are not tied to refund obligations or otherwise constitute free capital not recovered in rates. Even presuming (wrongly) that such a relationship exists, there is also no basis in the statute to assume that a linear mathematical or dollar-for-dollar relationship between such investments and an EDU's SEET threshold ROE.

In sum, nothing in the SEET statute or the Commission's rules promulgated thereunder requires the amount by which the Commission increases an EDU's SEET threshold ROE in consideration of its future capital commitments to directly correlate with the costs of those commitments.

b. The record in the 2009 SEET is manifestly clear that the proposed $20 million investment was to be recovered in rates and the 2009 SEET decision accepted the scope and extent of the proposed investment along with all of the "other factors" considered under the guidelines (i.e., the factors set forth in Case No. 09-786-EL-UNC).

In the 2009 SEET Case, AEP Ohio presented substantial evidence of the capital requirements of its planned future investments in Ohio and demonstrated that it was appropriate for the Commission to recognize that retained equity was needed to enable those planned investments to occur in the future. *See* 2009 SEET Proceeding, AEP Ohio Initial Br. at 67-71 (Nov. 19, 2010). Specifically, Company witness Hamrock demonstrated that AEP Ohio had planned capital investments of approximately $1.67 billion during the term of its first ESP alone. *See id.*; 2009 SEET Proceeding, Cos. Ex. 6 at 17 and Ex. JH-1. That $1.67 billion of planned investment included planned capital investment of $20 million in a planned solar project. 2009 SEET Proceeding, AEP Ohio Initial Br. at 5, 68, 71; 2009 SEET Proceeding, Cos. Ex. 8 at 7. Both Company witness

Hamrock and AEP Ohio's post-hearing briefing made clear that AEP Ohio contemplated that its planned investments (including but not limited to its investment in the solar project) would be capital investments for which the Company would recover in rates; the investment plans were never portrayed as donations or payments to ratepayers, either by the Company or by the Commission. There is no basis to distinguish the $20 million investment plan for Turning Point from any of the other investments comprising the $1.67 billion planned capital investment discussed in the Company's testimony. By contrast, AEP Ohio's explicit testimony and positions on brief in the 2009 SEET case were consistent with the SEET statute.

In its 2009 SEET Order, after considering the Company's $1.67 billion capital investment commitments, including the commitment to invest $20 million in the solar project, as well as numerous other factors, the Commission concluded that it was appropriate to adjust the baseline adder used to determine the Company's SEET threshold ROE from 50% to 60%. 2009 SEET Order at 22-27. In its prior generic SEET investigation proceeding (Case No. 09-786-EL-UNC), the Commission developed a list of various factors that it would consider when establishing a SEET threshold on a case-by-case basis. 2009 SEET Order at 22, 25. In accordance with the 09-786 guidelines, the 2009 SEET Order separately considered several factors other than the $20 million Turning Point commitment when it decided to increase the earnings adder by 10%: (i) the Commission found (at 25-26) that "CSP is facing various business and financial risks," including various mandates under SB 221, carbon regulation and changing generation investment risks, (ii) the Commission found (at 26) that CSP's service reliability has improved through fewer outages and decreased duration of outages, (iii) the Commission acknowledged (at 26) that CSP's most recently authorized ROE was higher than the ROEs being advocated for use in the SEET, (iv) the Commission found (at 26) that "consideration should be given to CSP's commitment to innovation, including its work with the gridSMART program, and (v) the Commission found (at 26) that it "must also include in its consideration CSP's efforts to advance Ohio's energy policy and future capital commitments. Only as part of this fifth and final category of factors for consideration did the Commission consider the $20 million Turning Point commitment – and it was only part of one of the five categories of consideration factors (*i.e.*, it was the last consideration mentioned in the category of advancing State policy which also included the fact that CSP far exceeded the benchmarks of both energy efficiency and peak demand response). 2009 SEET Order at 26.

An obvious and compelling observation must be drawn from, and acknowledged based upon, the Commission's consideration of these factors: there is no basis in the record or the order to conclude that the 10% increase in the adder (from the default of 50% to 60%) is tied exclusively or even primarily to the $20 million Turning Point commitment. The 2009 SEET Order did not place any particular weighting on the various list of factors considered. 2009 SEET Order at 27, 34. Indeed, the proposed $20 million investment was only one consideration as part of one of the factors (*i.e.*, it was the last consideration mentioned in the category of advancing State policy which also included the fact that CSP far exceeded the benchmarks of both energy efficiency and peak demand response).

Thus, the planned $20 million investment did not, on its own, lead to the increase in the 2009 SEET threshold ROE, but rather was only one component of the basis for the additional 10% adder. Pursuant to the record-based numbers used in the 2009 SEET order, the entire 10% adder would be equivalent to $22 million. This straightforward calculation is derived by subtracting the SEET ROE threshold of 16.5% that would have resulted from the 50% adder from the SEET ROE threshold actually adopted of 17.6% based on the 60% adder, which yields a difference of 1.1% or approximately $22 million.[1] Given that the Commission relied upon no less than five different categories of consideration factors in increasing the adder by 10% and given that the $20 million commitment was only one part of the final category discussed in the Opinion and Order, there is no direct or quantifiable connection between the $20 million commitment and the Commission's decision to elevate the SEET ROE threshold by $22 million. Hence even if the Commission did attempt to transform the capital investment requirement into a refund obligation (improperly and over AEP Ohio's objection), any such obligation would only be a small fraction of $22 million and absolutely not the $20 million that AEP Ohio is planning to invest in the Volt/Var Optimization program.

In reality, under the 2009 SEET Order, only earnings *beyond* that 60% adder (which equated to a 17.6% ROE) were considered excessive and were to be returned to customers.[2] The $20 million investment, which was included among the factors supporting the 60% adder, was not intended to be returned to customers. Indeed, nowhere in its 2009 SEET Order did the Commission suggest such a relationship – and

---

[1] As used by the 2009 SEET Order (at 35), Joint Intervenor Exhibit 2 calculated each 1% of ROE change as being equivalent to $20.039 million of earnings.

[2] The Company has fully complied with its refund obligations under the 2009 SEET Order and has returned to customers more than $42 million in earnings that the Commission deemed to be significantly excessive. *See* 2009 SEET Order at 35; 2009 SEET Proceeding, CSP Revised Tariff Filing (Jan. 21, 2011); 2009 SEET Proceeding, Finding & Order (Jan. 27, 2011) (approving, as modified, CSP's January 21, 2011 tariff filing).

there would have been no basis in the record or the SEET statute to do so. For that reason, there is no basis in the 2009 SEET record or decision to support the notion that the capital investment commitment would not be recovered in rates or would otherwise be used to offset costs that would be recovered in rates. Similarly, the 2009 SEET Order cannot be interpreted to require AEP Ohio to offset actual operation and maintenance expenses incurred in response to the 2012 major storms by $20 million. Such a proposal has no basis in the SEET statute, the record in the 2009 SEET proceeding or the final order in that case.

2. Converting the 2009 SEET capital commitment to a refund obligation would not only violate the SEET statute but would also be unlawful as a retroactive modification of the final order in the 2009 SEET Case, because res judicata applies and the Commission lacks jurisdiction to modify prior adjudicative orders that have become final.

While the Commission can prospectively change policy decisions and ratemaking determinations, the Supreme Court of Ohio has held that *res judicata* applies to an adjudicatory decision made in a prior final order. *See Office of the Consumers' Counsel v. Pub. Util. Comm.*, 16 Ohio St.3d 9, 10 (1984) ("OCC is barred by the doctrines of *res judicata* and collateral estoppel from attempting to relitigate [an issue that was previously litigated] in the prior proceeding and was passed upon by the commission. OCC cannot now attempt to reopen the question."); *see also Baltimore & Ohio R. Co. v. Pub. Util. Comm.*, 22 Ohio St.3d 275, 279 (1986) (stating that after the Commission has made a final order, it may not lawfully reopen a closed case and change the order); *Cincinnati Bell v. Pub. Util. Comm.*, 12 Ohio St.3d 280 (1984) (citing *State Corp. Comm. of Kansas v. Wichita Gas Co.* (1934), 290 U.S. 561, 569, 54 S.Ct. 321, 324, 78 L.Ed. 500).

This rule is not unique to the Commission. Indeed, it is a well-established general rule that, in the absence of a specific statutory limitation to the contrary, an administrative agency is divested of its jurisdiction to reconsider or modify a decision after an appeal from that decision has been taken or the time for an appeal has expired. *See Hal Artz Lincoln Mercury, Inc. v. Ford Motor Co.*, 28 Ohio St.3d 20, para. 3 of syllabus (1986), *citing State ex rel. Borsuk v. Cleveland*, 28 Ohio St.2d 244 (1972). There is no express statutory language to the contrary applicable here. For these reasons, the Commission is without jurisdiction to modify its decision in the 2009 SEET Proceeding in this proceeding.

Similarly, the Commission violates the prohibition against retroactive application of the law if it attempts to modify the 2009 SEET Order. The General Assembly may not constitutionally impose a new standard upon past conduct. *Van Fossen v. Babcock & Wilcox Co.*, 36 Ohio St.3d 100, 104 (1988). What the legislature cannot do directly, it cannot do indirectly through the Commission. See *Discount Cellular v. Pub. Util. Comm.*, 112 Ohio St.3d 360, 2007-Ohio-53. As a related matter, the Commission, as a creature of statute, has and can exercise only the authority conferred upon it by the General Assembly. *Tongren v. Pub. Util. Comm.*, 85 Ohio St.3d 87, 88 (1999). If the Commission accepts the positions advanced by OCC and Staff, it will be clear that the Commission is retroactively changing the scope and consequences of the $20 million commitment as originally presented and discussed in the 2009 SEET Order. If so, the Commission would be unlawfully imposing "new or additional burdens, duties, obligations, or liabilities as to a past transaction," *Van Hossen*, 36 Ohio St.3d at 107, and it would be violating AEP Ohio's "reliance interest or reasonable expectation of finality," *State v. White*, 132 Ohio St.3d 344, 2012-Ohio-2583, ¶ 48. These principles of law and equity are especially compelling in light of the fact that AEP Ohio has attempted to pursue the $20 million investment and the Commission itself has decided that there is no need for the project and, by extension, that the cost of the proposed project will not be recovered from ratepayers.

C. Operational Savings

Attachment C to the Application provides a list of expected, quantifiable savings associated with Phase 2 of the gridSMART® project. The Company expects any actual savings realized, in the form of reduced operating costs, will be flowed through to customers in the form of lower distribution rates. Instead of reflecting reduced operating costs in the form of lower distribution rates, the Company is agreeable to flow savings back to customers through the gridSMART® Phase 2 rider, if the Commission determines it is appropriate and desirable to do so. If savings are passed through the gridSMART® rider, the Company will need to recognize an adjustment in its next base distribution case. An adjustment to add back to expense the savings flowed through the rider would be necessary to set the correct level of O&M going forward. Absent this adjustment, the savings will be recognized twice, once through the rider and again on an ongoing basis through lower O&M expenses used to set the base distribution rates.

Many intervenors comment that the Company's filing lacks sufficient detail for operational savings. However, Attachment C to the Application was intended to be a guideline which measures the estimated benefits of the gridSMART® project and provides metrics by which operational savings could be calculated. Attachment C is broken down into two sets of benefits, those that were included in the cost/benefit analysis and additional benefits that were harder to quantify and measure. Attachment C listed those benefits that could be passed through to customers through the Companies' next base distribution case but not all benefits identified will achieve a cost reduction in rates.

The Company is agreeable to estimating the cost savings it will achieve annually and comparing that estimate to actual savings, based on the metrics in Attachment C, to be passed back through the rider, if the rider is implemented on approval. However, the Company maintains that the costs that are quantifiable and measureable, as listed in Attachment C, should be based on actual, measureable savings incurred and clarifies that not all benefits reflect reductions in costs to the Company and as such should not be passed back as a credit to the rider. The Company also notes that most work performed in year one of the filing is estimated to be engineering studies and there will be minimal operating savings in year one.

The Company would like to take this opportunity to clarify the values listed on Attachment C and how these values could be flowed back through the rider, if so ordered. For instance, operational savings achieved from meter reading and operational labor savings could be calculated as suggested in Attachment C each year with the savings passed back through the O&M component of the rider. Some benefits may not be suitable to be passed back through the rider, such as the savings recognized if the remote disconnect and reconnect capabilities of the meter can be used. These types of savings would be recognized by the customer through a lower disconnect/reconnect fee in the miscellaneous fees section of the Company's Terms and Conditions of service. In its recent distribution case, the Company calculated this cost based charge and gave a credit to that amount to recognize that 7% of the meters in the field were AMI, and if the Company can take advantage of that feature, the rate should reflect those savings. The Company would update this rate in a similar fashion as more AMI meters are deployed, if the waiver is granted to utilize the full potential of the meter. Absent this waiver, there would be no savings achieved for this particular section. Additional non-financial benefits will be recognized by customers as stated in Attachment C but an adjustment to the rider would be unnecessary.

The Company is only asking to recover actual, prudently incurred costs through the gridSMART® Phase 2 rider. In addition, the Company has put forth its best efforts in estimating what the costs of the project will be but the value was not intended to be a cap. The annual audit will serve as the prudency review to assure that the Company is implementing the plan in a prudent manner and that the customers are receiving the benefits from the project. However, the costs and benefits should be based on actual experience and trued up on an annual basis.

D. Dynamic Pricing

The Company agrees that any dynamic pricing should be offered by competitive retail elective service (CRES) providers. The Company can agree to holding updates with all stakeholders on the progress of the Phase 2 gridSMART® rollout. The Company will roll out the AMI meters in a nondiscriminatory manner based on operation efficiency. The Company will maintain sole discretion as to the schedule of the AMI rollouts and locations but is not opposed to sharing the details once they are final.

The Company does not intend to offer any consumer programs with the Phase 2 deployment as mentioned above, including any Direct Load Control, Time-of-Use rate designs, or home equipment to evaluate the time differentiated rates. The Company will, however, determine if a simple Time-of-Use offering is necessary depending on the offerings by suppliers prior to June, 2015 when the Company is providing services based on a full competitive bid auction. It appears from other comments that there is a significant interest by suppliers to be able to offer such pricing.

E. Rider Filing and Audit

The Company is proposing the Phase 2 rider operate similar to the Phase I rider (i.e., rider rates for the year will be based on the Company's estimate of the capital and O&M spend for the year; during the annual rider audit, the estimates will be trued-up to actuals and a new rate could be established for the following year), with the exception of collecting carrying charges on plant that is in service rather than on a dollars spent basis as was done in the Phase I rider. Staff's comments suggest that the Company has ignored the Commission's ESP II order that recovery should occur only after the equipment is installed, tested and is in-service (Staff page 4). OCC makes a similar argument in its comments. (OCC comments at 7.) The Company disagrees with Staff's and OCC's arguments on this point comments on this matter. The Company has included in the rider for recovery an estimate of when the equipment will be placed into service, fully complying with the Commission's order. The annual audit would act as a prudency review for the assets that were actually placed in service during the review period. Although, as proposed, collection under the rider would be based upon an estimate of current year's activities, the rider would be trued-up to actuals during the annual audit, ensuring the Company is only recovering a return of and on those investments installed, tested or placed in service during the year, as the Commission directed.

Per Federal Energy Regulatory Commission (FERC) rules, meters and transformers are capitalized on purchase, meaning they are placed in service upon purchase. The Company will continue to follow FERC guidelines and begin recovery of the meters upon purchase. However, the Company plans to place one order for meters with deliveries to be made periodically to help limit the amount of time between when the meters are in service for accounting purposes, thus included in the rider, and installed in the field.

Further, the Company has proposed the rider to be set up in this manner in order to avoid additional costs to customers through carrying charges on the rider. Ohio Partners for Affordable Energy (OPAE) states that the Company should be required to give back any over collections sooner and states the experience from the Phase I project as an example. (OPAE Comments pages 4 & 5.) If operation of the Phase 2 rider is approved as proposed by the Company, no carrying charges on the over/under balance would be required as recovery of annual investments would be current. If the Commission wishes to adopte OPAE's recommendation, however, it should apply carrying charges at the Long-Term Debt rate on the over/under balance. Another option would be to implement rates quarterly with an annual prudency review. This approach too would require carrying charges on the over/under balance at the Long-Term Debt rate.

F. Accounting Issues

Staff's comments at page 6 address their concern with the seven year accounting life the Company has estimated for the meters. Currently the Company has assigned AMI meters a seven year life based on what was approved in the gridSMART® Phase I filing and on the manufacturers' expectancy. The Company does not oppose Staff's recommendation to change the useful life of the meters to fifteen years. The technology improvements made to these meters has allowed for the manufacturers' expectancy to increase. However, if the Commission orders a fifteen year life, all AMI meters – including those installed as part of Phase 1 – will be reclassified to a fifteen year life as it is not possible to separately track in the field mass property AMI meters. This change will lower the rider rate by recognizing a lower depreciation value on a 15 year asset and is in line with the manufacturer's recommended useful life.

In its comments at page 6, Staff is also concerned with the potential double-recovery of old meters being replaced by the gridSMART® Phase 2 AMI meters. Staff's concern is unfounded. The Company is proposing to recover the loss on removal of meters as it did in the Phase I filing. Company Witness Assante testified at page 45 through 47 of his direct testimony in the Company's ESP I filing, Case No. 08-917-EL-SSO, to the accounting treatment for the loss on removal of meters that the Company is proposing since this is a mass retirement. As such, the Net Book Value of the Company's distribution assets will be decreased. In the Company's ESP II Case No. 11-346-EL-SSO, the Commission approved the Distribution Investment Rider (DIR). The DIR revenue requirement is calculated using the change in Net Book Value of the Company. As these meters are retired, the Net Book Value will decrease and customers will experience a reduction in the DIR rate as it relates to the retirement of these old meters. This reduction will be experienced both through the return component (asset) as well as the depreciation component (expense). This mechanism assures that the Staff's concern of double recovery is addressed.

The Company has proposed to collect the loss associated with the disposition of electro-mechanical meters over a five year period, beginning in the second year because meter replacement is scheduled to occur over a four year period beginning closer to the end of the first year. There may be some replacement that moves to the fifth year. Collecting the loss over five years mitigates the rate impact on customers.

G. Cyber Security

AEP has a robust and holistic approach to cyber security across all of its operating companies, including AEP Ohio. We are working diligently to address the growing number of threats to our electric generation, transmission, and distribution facilities, as well as to all of our physical, information, and electronic assets. Given the scope, size and sensitive nature of the threats, the Company does not provide detailed information on AEP's cyber security program. Instead, the Company's cyber security efforts can be summarized without providing details that could be exploited by a potential adversary. While AEP strives to securely harden and monitor our networks from a cyber security event, our concern is related to any possible data breach of the cyber security information that is provided in detail to entities outside of our secure network, and the resultant impact on our reliability of a potential breach of another entity's network.

We start by stating that information security is just as critical as cyber or physical security of our assets. As such, AEP does not comment publicly on any of our cyber security defense mechanisms, on any specific cyber security device vulnerability, enactment of specific cyber security recommendations or requirements, on our operating practices and policies related to cyber security, or any specific threat vector, since any comments could be used by our adversaries to give them critical intelligence into AEP's cyber security defensive posture. This position is also supported by NARUC's cyber security document, titled "Cyber security for State Regulators 2.0, With Sample Questions for Regulators to Ask Utilities." On page 15, under Information Protection, it states "[t]he line between knowing enough to determine that a utility's actions are prudent and knowing so much that the information held by the Commission can pose a cyber security risk is a line that commissions should walk carefully. In cyber security, the information itself is sometimes the asset worth stealing…." Based on the threats our industry is facing, AEP strongly supports NARUC's comments.

In the last three years, AEP has taken numerous steps to enhance its capabilities for identifying risks and threats. AEP became the first utility in the country to build a Cyber Security Operations Center (CSOC). Funding was included as part of a larger American Recovery and Reinvestment Act smart grid demonstration project grant. This facility was designed as a pilot cyber threat and information-sharing center specifically for the electric sector. We partnered with Lockheed Martin, to leverage their experience and technical capabilities, which were developed through their work with the U.S. Department of Defense (DOD) Defense Industrial Base (DIB), and transitioning those capabilities to the electric sector. As part of this program, with Lockheed Martin's expertise and assistance, the CSOC program conducts advanced training for cyber security analysts, training industry professionals on the advanced capabilities they need to recognize and investigate cyber vulnerabilities and advanced malware. Beginning this year, the CSOC became fully funded and governed by its utility membership and represents a true success story.

AEP has a strong cyber security program in place and monitors other industry best practices to evaluate them for potential use in enhancing our security posture. We carefully evaluate our own practices, adding depth and substance to our cyber protection protocols. Our cyber protection program is robust and includes an incident management process that enables us to respond quickly to cyber threats. We monitor emerging threats to better understand the threat environment and increase the nimbleness of our responses when issues arise.

AEP also supports and already complies with cyber security regulatory requirements defined and enforced by the FERC and the North American Electric Reliability Corporation (NERC), which is enabled by FERC as the nation's Electric Reliability Organization, authorized by the Energy Policy Act of 2005.

Through the NERC Critical Infrastructure Protection (CIP) Standards (approved by the Federal Energy Regulatory Commission), AEP already utilizes a risk-based assessment methodology to determine which of our cyber infrastructure components are critical. The industry is refining the CIP standards to institute a bright-line criteria for determining the level of criticality of cyber infrastructure used to operate the bulk electric system going forward. AEP has been very active in helping to form the gridSMART specific cyber security recommendations and practices through a number of organizations including the National Institute of Standards and Technology (NIST), Cyber Security Working Group (CSWG) of the Smart Grid Interoperability Panel (SGIP), and other organizations or working groups. AEP has also been a participant on the NERC Critical Information Protection drafting teams, and the more recent NIST Cyber security Framework development efforts.

H. Back Office Systems

Based upon AEP Ohio's experience from both Phase I and other Choice market AMI deployments in other parts of AEP's service territory, changes to back-office systems such as the Meter Data Management system, Electronic Data Interchange (EDI) system, Supplier Web Portal, and Customer Information System (CIS) are required, and such changes will be made as part of the necessary changes that will accompany the proposed gridSMART® Phase 2 deployment. While the Company will issue Request for Proposals (RFPs) to select the vendors for the associated technologies, the estimates of IT efforts cannot be finalized until these vendors are selected. Estimates for these expenses have been incorporated into the Company's deployment cost estimates.

Modifications to AEP Ohio's EDI translation system will be made to designate customers with AMI metering. In addition, an AMI customer "flag" will be provided in AEP Ohio's "enrollment list" file to allow CRES providers the ability to identify customer with AMI metering and allow them to target specific customer segments with time-differentiated rate offerings. Changes to the AEP Ohio CRES Web Portal will also be made to allow CRES providers the ability to download customer interval data for price bids and billing, which based upon feedback from CRES providers, is a preferred method. Finally, changes will be made to AEP Ohio's settlement system which calculates CRES provider PJM hourly energy obligations.

It is AEP Ohio's opinion that making these changes will allow CRES Providers the ability to take the lead in offering enhanced rates. AEP Ohio expects CRES Providers to dual-bill or rate-ready bill the most creative time-differential rates, meaning minimal modifications to AEP's Customer Information System are anticipated.

I. Data Sharing

AEP Ohio appreciates the AMI support that IGS acknowledges. While the Company has not selected the meter manufacturer yet, all of the meter vendors support 15 minute interval meter data. Therefore, the Company plans to utilize 15 minute granularity for AMI interval meter data. Given the PJM energy market is settled on hourly usage data, AEP Ohio feels providing 15 minute load data strikes an effective balance between cost and offering CRES providers with necessary load data for emerging time-of-use products they will offer.

J. Customer Education

AEP Ohio supports feedback that enables the Company to maximize the customer experience associated with the proposed gridSMART® Phase 2 efforts. While the customer education plan has not been finalized, the Company will leverage its experience from the gridSMART® Phase 1 deployment. Multi-channel efforts will inform the customers of the functionality and benefits of the core gridSMART® technologies: DACR, VVO, AMI meters and its associated energy management tools. AEP Ohio envisions maintaining a dialog with CRES providers as was experienced during the recent workshop where the gridSMART® Phase 2 plan was summarized and feedback was requested on the most effective method to transfer AMI interval data.

K. Updates to Attachment B

Subsequent to the gridSMART® Phase 2 filing the Company was made aware that the pre-tax WACC included certain gross-up adjustments for Commercial Activities Tax (CAT), uncollectible expense and assessment fees. The Company is taking this opportunity to revise its Attachment B in the filing to make the appropriate changes to remove these gross-up items from the pretax WACC. The annual carrying charge values were updated to more accurately reflect the plant balance to be applied to each component of the carrying charge. For instance, rate base, which would be represented by net plant in service, is subject to a return component in order to reflect the return on the assets. Depreciation is calculated using gross plant, in order to reflect the return of the rate base. Property taxes are calculated based on net plant in service. In addition, the Company is adjusting the schedule to reflect Staff's position on a fifteen year life for the AMI meters. During the preliminary audit of Attachment B, Staff noted a formulaic error in the spreadsheet calculation. Finally, during the course of discovery, the Company became aware that the deprecation rate for the loss of removal of meters, and the base distribution revenues and customers counts used to allocate the annual revenue requirement needed to be adjusted. These changes are included in updated Attachment Band in turn effect the estimated average Monthly Rate Impacts as listed below.

Updated Average Monthly Rate Impact $		
	Residential	Non-Residential
Year 1	0.39	1.60
Year 2	1.76	7.27
Year 3	2.66	11.00
Year 4	3.47	14.31
Year 5	3.67	15.15
Average	2.39	9.87
Average monthly bill in 2012	127.93	Varies
Average Increase	1.9%	Varies

III. CONCLUSION

Phase 2 of the gridSMART® project will build upon AEP Ohio's successful gridSMART® Phase 1 experience and deliver the benefits of the gridSMART® project to a broader and more diverse customer base. Because the authority to make this filing results from the Commission's ESP II Order, and because the Application, attachments to the Application and these Reply Comments include sufficient detail on the equipment and technology proposed as part of Phase 2 and discuss the demonstrated success, cost-effectiveness, feasibility, and customer acceptance of the proposed technology, AEP Ohio does not believe a hearing in this matter is required or needed. Therefore, AEP Ohio respectfully requests that the Commission approve the initiation of Phase 2 of the gridSMART® project and the establishment of the gridSMART® Phase 2 Rider, effective January 1, 2014.

Respectfully submitted,

/s/ Yazen Alami

Matthew J. Satterwhite
Steven T. Nourse
Yazen Alami
AMERICAN ELECTRIC POWER SERVICE CORPORATION.
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215
Telephone: 614-716-1915
Fax: 614-716-2950
stnourse@aep.com
mjsatterwhite@aep.com
yalami@aep.com

Counsel for Ohio Power Company

gridSMART Phase 2

gridSMART Incremental Investment	Estimated gridSMART Spending	Annual Carrying Charge		gridSMART Revenue Requirement	
O&M (AMI, VVO, DACR)	$ 6,648,975			$ 6,648,975	
Capital - 15 Year Life- AMI		$ 2,248,906		$ 2,248,906	(a)
Capital - 30 Year Life - VVO		$ 582,196		$ 582,196	(b)
Capital - 30 Year Life - DACR		$ 557,126		$ 557,126	(b)
		Total		$ 9,455,007	
		Tax Gross Up Rate		100.859%	
		Revenue Requirement		$ 9,536,237	
		Loss on Removal of meters		$ -	
		Total Revenue Requirement		$ 9,536,236.6	
Residential Base Distribution	$ 397,598,956	Residential Revenue Requirement		$ 5,935,279	
Non-Res Base Distribution	$ 241,224,918	Non-Res Revenue Requirement		$ 3,600,958	
		Residential Customers	1,273,360	4.66	
		Non-Residential Customers	187,036	19.25	
		Residential Customers	Monthly Rate	$ 0.39	
		Non-Residential Customers	Monthly Rate	$ 1.60	

(a) AMI Assets (account 370.16) are Capitalized on Purchase and have 15 year life.
(b) VVO & DA Assets (account 362-station equipment) are capitalized after 6 months and have 30 year life.

Notes:
ROR from Renee Hawkins Rate of Return Summary Modified ESP Case 11-346-EL-SSO

gridSMART Phase 2

gridSMART Incremental Investment	Estimated gridSMART Spending	Annual Carrying Charge			gridSMART Revenue Requirement
O&M (AMI, VVO, DACR)	$ 7,496,589				$ 7,496,589
Capital - 15 Year Life- AMI		$ 10,599,393			$ 10,599,393
Capital - 30 Year Life - VVO		$ 5,800,352			$ 5,800,352
Capital - 30 Year Life - DACR		$ 5,080,083			$ 5,080,083
		Total			$ 28,976,416
		Tax Gross Up Rate			100.859%
		Revenue Requirement			$ 29,225,357
		Loss on Removal of meters			$ 14,004,808
		Total Revenue Requirement			$ 43,230,164.9
Residential Base Distribution	$ 397,598,956	Residential Revenue Requirement			$ 26,906,115
Non-Res Base Distribution	$ 241,224,918	Non-Res Revenue Requirement			$ 16,324,050
		Residential Customers	1,273,360		21.13
		Non-Residential Customers	187,036		87.28
		Residential Customers	Monthly Rate	$	1.76
		Non-Residential Customers	Monthly Rate	$	7.27

(a) AMI Assets (account 370.16) are Capitalized on Purchase and have 15 year life.
(b) VVO & DA Assets (account 362-station equipment) are capitalized after 6 months and have 30 year life.

Notes:
ROR from Renee Hawkins Rate of Return Summary Modified ESP Case 11-346-EL-SSO

gridSMART Phase 2

gridSMART Incremental Investment	Estimated gridSMART Spending	Annual Carrying Charge		gridSMART Revenue Requirement
O&M (AMI, VVO, DACR)	$ 8,610,621			$ 8,610,621
Capital - 15 Year Life- AMI		$ 20,291,908		$ 20,291,908
Capital - 30 Year Life - VVO		$ 11,745,514		$ 11,745,514
Capital - 30 Year Life - DACR		$ 10,262,713		$ 10,262,713
		Total		$ 50,910,756
		Tax Gross Up Rate		100.859%
		Revenue Requirement		$ 51,348,137
		Loss on Removal of meters		$ 14,004,808
		Total Revenue Requirement		$ 65,352,945.3
Residential Base Distribution	$ 397,598,956	Residential Revenue Requirement		$ 40,675,159
Non-Res Base Distribution	$ 241,224,918	Non-Res Revenue Requirement		$ 24,677,786
		Residential Customers	1,273,360	31.94
		Non-Residential Customers	187,036	131.94
		Residential Customers	Monthly Rate	$ 2.66
		Non-Residential Customers	Monthly Rate	$ 11.00

(a) AMI Assets (account 370.16) are Capitalized on Purchase and have 15 year life.
(b) VVO & DA Assets (account 362-station equipment) are capitalized after 6 months and have 30 year life.

Notes:
ROR from Renee Hawkins Rate of Return Summary Modified ESP Case 11-346-EL-SSO

gridSMART Phase 2

gridSMART Incremental Investment	Estimated gridSMART Spending	Annual Carrying Charge		gridSMART Revenue Requirement
O&M (AMI, VVO, DACR)	$ 9,605,920			$ 9,605,920
Capital - 15 Year Life- AMI		$ 28,284,777		$ 28,284,777
Capital - 30 Year Life - VVO		$ 17,258,950		$ 17,258,950
Capital - 30 Year Life - DACR		$ 15,322,331		$ 15,322,331
		Total		$ 70,471,978
		Tax Gross Up Rate		100.859%
		Revenue Requirement		$ 71,077,412
		Loss on Removal of meters		$ 14,004,808
		Total Revenue Requirement		$ 85,082,220.1
Residential Base Distribution	$ 397,598,956	Residential Revenue Requirement		$ 52,954,505
Non-Res Base Distribution	$ 241,224,918	Non-Res Revenue Requirement		$ 32,127,715
		Residential Customers	1,273,360	41.59
		Non-Residential Customers	187,036	171.77
		Residential Customers	Monthly Rate	$ 3.47
		Non-Residential Customers	Monthly Rate	$ 14.31

(a) AMI Assets (account 370.16) are Capitalized on Purchase and have 15 year life.
(b) VVO & DA Assets (account 362-station equipment) are capitalized after 6 months and have 30 year life.

Notes:
ROR from Renee Hawkins Rate of Return Summary Modified ESP Case 11-346-EL-SSO

AEP Ohio
gridSMART Phase 2
Reply Comments
Case No.13-1939-EL-RDR

Updated Attachment B
YEAR 5

gridSMART Phase 2

gridSMART Incremental Investment	Estimated gridSMART Spending	Annual Carrying Charge		gridSMART Revenue Requirement
O&M	$ 8,092,872			$ 8,092,872
Capital - 15 Year Life- AMI		$ 31,184,194		$ 31,184,194
Capital - 30 Year Life - VVO		$ 18,268,558		$ 18,268,558
Capital - 30 Year Life - DACR		$ 17,820,947		$ 17,820,947
		Total Revenue Requirement		$ 75,366,571
		Tax Gross Up Rate		100.859%
		Revenue Requirement		$ 76,014,055
		Loss on Removal of meters		$ 14,004,808
		Total Revenue Requirement		$ 90,018,863.4
Residential Base Distribution	$ 397,598,956	Residential Revenue Requirement		$ 56,027,033
Non-Res Base Distribution	$ 241,224,918	Non-Res Revenue Requirement		$ 33,991,831
		Residential Customers	1,273,360	44
		Non-Residential Customers	187,036	181.74
		Residential Customers	Monthly Rate	$ 3.67
		Non-Residential Customers	Monthly Rate	$ 15.15

(a) AMI Assets (account 370.16) are Capitalized on Purchase and have 15 year life.
(b) VVO & DA Assets (account 362-station equipment) are capitalized after 6 months and have 30 year life.

Notes:
ROR from Renee Hawkins Rate of Return Summary Modified ESP Case 11-346-EL-SSO

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing was served by electronic mail upon the persons listed below this 18th day of November, 2013.

/s/ Yazen Alami
Yazen Alami

Devin.parram@puc.state.oh.us
Ryan.orourke@puc.state.oh.us
sam@mwncmh.com
fdarr@mwncmh.com
joliker@mwncmh.com
mpritchard@mwncmh.com
jfinnigan@edf.org
TDougherty@theOEC.org
ricks@ohanet.org
tobrien@bricker.com
NMcDaniel@elpc.org
haydenm@firstenergycorp.com
scasto@firstenergycorp.com
cmooney@ohiopartners.org
vparisi@igsenergy.com
mswhite@igsenergy.com
whitt@whitt-sturtevant.com
campbell@whitt-sturtevant.com
williams@whitt-sturtevant.com
mhpetricoff@vorys.com
glpetrucci@vorys.com
jennifer.lause@directenergy.com
joseph.clark@directenergy.com
terry.etter@occ.ohio.gov
Michael.schuler@occ.ohio.gov