

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)
Ohio Power Company to Update Its) Case No. 13-345-EL-RDR
gridSMART Rider.)

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 R.C. 4905.02 and an electric utility as defined in R.C. 4928.01(A)(11), and, as such, is subject to the jurisdiction of this Commission.
- (2) In Case No. 11-346-EL-SSO, et al., the Commission 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 R.C. 4928.143. *In re Columbus Southern Power Company and Ohio Power Company*, Case No. 11-346-EL-SSO, et al. (*ESP Case*), Opinion and Order (Aug. 8, 2012). Among other provisions of the ESP, the Commission approved AEP Ohio's request to continue its gridSMART rider mechanism, which enables the Company to recover its prudently incurred costs associated with the gridSMART Phase 1 project and is subject to an annual true-up and reconciliation. *ESP Case* at 62-63.
- (3) On February 1, 2013, AEP Ohio filed an application to update its gridSMART rider in the above-captioned case. The application reflects actual gridSMART project spending and revenue recovery during 2012 and projected costs and revenue requirements for 2013. AEP Ohio notes that the actual 2012 expenditures for the gridSMART program exceeded actual 2012 collections under the gridSMART rider, resulting in an under-recovery for 2012 of \$6,003,006. AEP Ohio further notes that, as a result of offsetting the under-recovery for 2012 with the net over-recovery for past years, there is an over-recovery to date of \$1,727,674, which

¹ On March 7, 2012, the Commission approved and confirmed the merger of Columbus Southern Power Company into Ohio Power Company. *In re Ohio Power Company and Columbus Southern Power Company*, Case No. 10-2376-EL-UNC, Entry (Mar. 7, 2012).

is a reduction of nearly \$6 million from the over-recovery balance reflected in the Company's last gridSMART rider application. AEP Ohio proposes new gridSMART rider rates of \$0.51 per month for residential customers and \$2.11 per month for non-residential customers.

- (4) On August 2, 2013, Staff filed comments in response to AEP Ohio's application. AEP Ohio filed reply comments on August 23, 2013.
- (5) By Entry issued on October 1, 2013, a procedural schedule was established in order to assist the Commission in its review of AEP Ohio's application to update its gridSMART rider.
- (6) Motions to intervene in this proceeding were filed on various dates by the Ohio Consumers' Counsel (OCC), Ohio Partners for Affordable Energy (OPAE), Retail Energy Supply Association (RESA), and Direct Energy Services, LLC and Direct Energy Business, LLC (jointly, Direct Energy). No memoranda contra were filed. The Commission finds that the motions to intervene are reasonable and should be granted.
- (7) On October 31, 2013, comments were filed by OPAE and OCC. No reply comments were filed in response to the comments of OPAE and OCC.

Summary of Comments

Software Maintenance Fee

- (8) In its comments, Staff notes that, in the course of reviewing bills from AEP Service Corporation during the audit, Staff encountered an allocation in the amount of \$22,681 to the gridSMART Community Energy Storage (CES) project, which represents a portion of the annual maintenance fee for a computer software program known as the Service-Oriented Architecture Governance Bundle. Staff further notes that it requested AEP Ohio to describe how the software contributes to the gridSMART program in general and the CES project in particular. Staff states that AEP Ohio discovered that the software was not related to either the

gridSMART program or the CES project. Staff, therefore, recommends an adjustment to remove the \$22,681 related to the software from the operations and maintenance (O&M) expense charged to the gridSMART rider.

- (9) AEP Ohio agrees with Staff's recommendation that the software maintenance fee of \$22,681 be removed from O&M expense, and notes that the cost will be removed as part of the Company's compliance filing in this case. AEP Ohio agrees that the fee is not related to the gridSMART program or the CES project, and explains that the fee was inadvertently included in the Company's revenue requirement. OP&E and OCC also agree with Staff's proposed adjustment.

Distribution Automation Performance

- (10) With respect to Distribution Automation (DA), Staff reports that, by the end of 2012, AEP Ohio had 70 circuits within the gridSMART area with operational DA circuit reconfiguration (DACR) capability, which involves a set of automated switches that can reconfigure circuits to reroute electricity around a fault, thereby reducing the number of customers affected by an outage. Staff further reports that, during the 47 outage events in 2012 during which DACR had an opportunity to function, only 28 successful circuit reconfigurations occurred. Staff notes that a success rate of 60 percent is below its expectations. According to Staff, AEP Ohio attributes the unsuccessful operations to communication failures and configuration control logic errors, which the Company has taken steps to address, as well as scheduled switching, which the Company plans to continue for safety reasons. Staff notes that it expects an improved success rate for 2013, and will monitor performance to verify that such improvement occurs.
- (11) In its reply comments, AEP Ohio explains that communications have been improved to handle the large amounts of data flow for a given event, while the configuration control logic of the overall system has also been improved, which should enhance DA performance in the future. AEP Ohio further explains that scheduled switching will continue to occur to safely maintain the

distribution system as required. AEP Ohio reports that its actions have already resulted in an improved success rate for 2013, with 25 of 27 successful events recorded. In its comments, OCC states that it is encouraged that AEP Ohio has taken steps to improve its success rate in restoring power during outages.

Per Diem Expenses

- (12) Staff recommends downward adjustments for per diem expenses of \$9,933.25 from O&M expense and \$60,322.56 from capital. In support of its position, Staff states that the per diem guidelines established by the United States Department of Energy (USDOE) for hotel, meal, and other travel-related expenses are reasonable and that AEP Ohio should not recover costs that exceed the USDOE guidelines.
- (13) AEP Ohio responds that its employees and contractors are not USDOE personnel and should not be subject to USDOE per diem guidelines, contrary to Staff's comments. AEP Ohio also asserts that the per diem expenses incurred by its employees and contractors in connection with the gridSMART project are prudent expenses that are subject to reasonable internal business policies and expense reporting guidelines. Additionally, AEP Ohio notes that, unlike USDOE personnel, the Company's employees cannot negotiate or qualify for governmental discount rates on hotel and travel expenses. AEP Ohio also points out that it included an adjustment in its base distribution case to remove any O&M expense and capital requested for recovery through the gridSMART rider. AEP Ohio, therefore, asserts that, if Staff's recommended adjustment is adopted, the Company will not recover the costs in question. AEP Ohio states that, if Staff's recommendations are nevertheless adopted, the Company and Staff have agreed that O&M expense and capital should increase by \$450.82 and \$4.06, respectively, to correct for redundant adjustments, resulting in a total adjustment of \$10,384.07 from O&M expense and \$60,326.62 from capital.
- (14) OP&E agrees with Staff that ratepayers should not be responsible for expenses that exceed the USDOE limits. OP&E asserts that it is unreasonable for AEP Ohio to expect

ratepayers to pay for expenses that the USDOE considers excessive. OPAE points out that recovery of the costs in question would not necessarily have occurred through AEP Ohio's base distribution rates. OPAE adds that, if AEP Ohio is not recovering sufficient distribution expenses through its base rates, the Company's remedy is to request an increase in its base rates.

Allowance for Funds Used During Construction

- (15) In its reply comments, AEP Ohio notes that, while researching a data request from Staff, the Company found that there was an allowance for funds used during construction (AFUDC) in the amount of \$11,625.15 included in the transaction data used to assemble the application. AEP Ohio proposes to remove this amount from capital expenditures as part of its compliance filing. OCC agrees that the AFUDC should be removed as part of AEP Ohio's compliance filing.

Unvouchered Liabilities

- (16) AEP Ohio reports that, during the course of the audit, Staff discovered two unvouchered liabilities in the amount of \$5,236.05 that were not reversed when payment was made. AEP Ohio states that it will remove this amount from the gridSMART rider as part of the Company's compliance filing. OCC agrees that the amount associated with the unvouchered liabilities should be removed as part of AEP Ohio's compliance filing.

Over-Recovery and Proposed Rates

- (17) Staff and OCC agree with AEP Ohio's proposal to refund a net over-recovery to customers, by offsetting the 2013 revenue requirement with the total over-recovery from 2009 through 2012, as adjusted to reflect the impact of any recommendations adopted by the Commission. Staff states that the cumulative impact of its recommended adjustments would result in new gridSMART rider rates of \$0.51 per meter per month for residential customers and \$2.10 per meter per month for non-residential customers, with

adjustments based on the percentage of distribution revenues that are residential and non-residential.

- (18) In its comments, OPAE points out that it has previously requested a more rapid refund of over-recovered amounts. OPAE recommends that Staff continue to monitor over-recoveries, such that ratepayers pay only for actual spending and are refunded any amounts that are over-recovered through the rider in a timely manner. OPAE also recommends that over-recoveries should be refunded to ratepayers through actual timely refunds or, alternatively, through offsets to projected spending to be charged to ratepayers through the rider. Additionally, OPAE notes that it agrees with Staff's recommended adjustments and proposed rates.

Conclusion

- (19) Upon review of AEP Ohio's application, comments, and reply comments, the Commission finds that the Company's application to update its gridSMART rider for the gridSMART Phase 1 project should be approved, as modified by the Commission. We find that adjustments should be made to remove the amounts associated with the software maintenance fee, AFUDC, and the unvouchered liabilities. We also adopt AEP Ohio's proposal to refund the net over-recovery to customers, by offsetting the 2013 revenue requirement with the total over-recovery from 2009 through 2012, as updated to reflect all of the adjustments adopted by the Commission.
- (20) With respect to per diem expenses, the Commission notes that we have previously addressed this issue in AEP Ohio's most recent gridSMART proceeding, Case No. 12-509-EL-RDR. The Commission noted that, with our approval of the Phase 1 gridSMART rider, we specifically directed AEP Ohio to pursue federal funds through the USDOE in an effort to reduce the costs of the project for Ohio ratepayers. The Commission further noted that implementation of the gridSMART rider mechanism was intended to better facilitate our review of gridSMART expenditures to ensure prudence. In particular, the Commission found that hotel, travel, and meal expenses in excess of the USDOE

guidelines, in the absence of further information provided by the Company, are imprudent. As a means to encourage AEP Ohio to better control its expenditures, the Commission stated that any amounts over the USDOE guidelines would not be automatically borne by Ohio ratepayers and, therefore, reduced the Company's gridSMART revenue requirement to account for excessive per diem expenses. *In re Ohio Power Company*, Case No. 12-509-EL-RDR, Finding and Order (Oct. 3, 2012) at 6. For the same reasons, we adopt Staff's recommendation to reduce the amount allowed for per diem expenses in the present proceeding, as corrected by AEP Ohio, resulting in a total adjustment of \$10,384.07 from O&M expense and \$60,326.62 from capital.

- (21) Regarding DA performance, the Commission recognizes the efforts already undertaken by AEP Ohio to enhance the operation of its DACR capability. We direct Staff to continue its monitoring of DA performance and to verify whether the expected improvement occurred in 2013.
- (22) Finally, we find that the costs allocated to the gridSMART rider, as adjusted by the Commission, were prudently incurred program costs. The gridSMART rider rates do not appear to be unjust or unreasonable and, therefore, we find that it is unnecessary to hold a hearing in this matter. AEP Ohio is directed to make a compliance filing, including a revised tariff, reflecting the necessary adjustments, consistent with this Finding and Order.

It is, therefore,

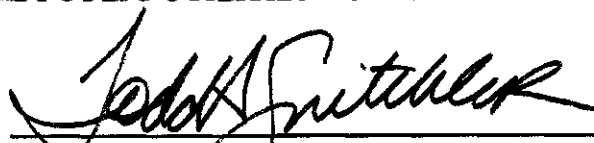
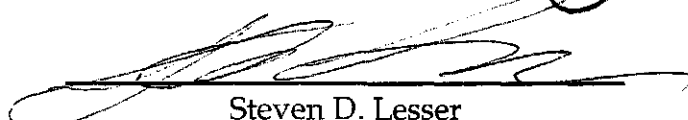
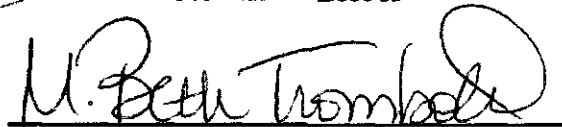
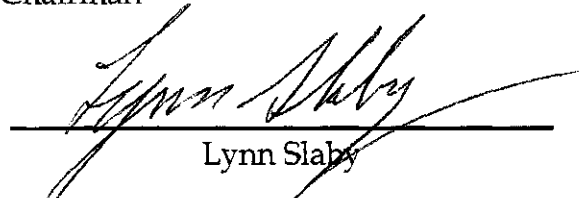
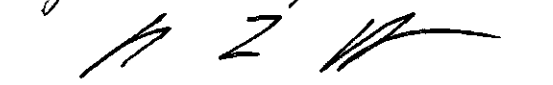
ORDERED, That the motions to intervene in this proceeding filed by OCC, OP&E, RESA, and Direct Energy be granted. It is, further,

ORDERED, That AEP Ohio's application be approved, as modified by this Finding and Order. It is, further,

ORDERED, That AEP Ohio file a compliance schedule and revised tariff consistent with this Finding and Order, subject to review and approval by the Commission, within seven calendar days after the issuance of this Finding and Order. It is, further,

ORDERED, That a copy of this Finding and Order be served upon all parties of record.


THE PUBLIC UTILITIES COMMISSION OF OHIO


Todd A. Snitchler, Chairman
Steven D. Lesser
M. Beth Trombold
Lynn Slaby
Asim Z. Haque

SJP/MJA/sc

Entered in the Journal

FEB 19 2014


Barcy F. McNeal
Secretary