

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission's Review)
of Ohio Power Company's Distribution) Case No. 13-2394-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) is a public utility as defined in R.C. 4905.02 and, as such, is subject to the jurisdiction of this Commission.
- (2) On August 8, 2012, 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 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* at 46-47.
- (3) On May 29, 2013, in Case No. 12-3129-EL-UNC, the Commission directed AEP Ohio to implement the DIR plan developed with Staff for 2013, in accordance with a number of specific terms outlined by the Commission. *In re Ohio Power Company*, Case No. 12-3129-EL-UNC (2013 DIR Plan Case), Finding and Order (May 29, 2013) at 10-12. The Commission further directed AEP Ohio, in coordination

with Staff, to file a DIR plan for 2014. *2013 DIR Plan Case* at 13.

- (4) On December 16, 2013, in the above-captioned case, AEP Ohio filed its DIR plan for 2014, as required by the Commission in the *2013 DIR Plan Case*.
- (5) By Entry issued on December 17, 2013, a procedural schedule was established to assist the Commission in its review of AEP Ohio's DIR plan for 2014.
- (6) On various dates, motions to intervene in this proceeding were filed by the Ohio Hospital Association (OHA), the Office of the Ohio Consumers' Counsel (OCC), and the Belden Brick Company, LLC (Belden). No memoranda contra were filed. Upon consideration of the motions to intervene filed by OHA, OCC, and Belden, the Commission finds that the motions are reasonable and should be granted.
- (7) In accordance with the established procedural schedule, initial comments were filed on January 16, 2014, by OCC, Belden, and Staff. Reply comments were filed on January 31, 2014, by OHA, OCC, and AEP Ohio.

Staff Comments

- (8) In its comments, Staff notes that, in the *2013 DIR Plan Case*, the Commission directed AEP Ohio to demonstrate in the DIR plan for 2014 that the Company's planned expenditures are higher than expenditures in recent years. Staff states that AEP Ohio included a bar chart in the DIR plan filing for 2014 that Staff believes was intended to make the necessary comparison. Staff points out, however, that the chart depicts annual levels of plant in service rather than expenditures, and fails to include projected data for 2014. For these reasons, Staff provides a revised chart in its comments that includes 2014 data and restates all dollar amounts in terms of expenditures instead of plant in service. Staff reports that its revised chart indicates a general upward trend in DIR or equivalent expenditures that peaks in 2014. According to Staff, the revised chart demonstrates that AEP Ohio's planned 2014 expenditures are higher than expenditures in recent years.

- (9) In its reply comments, AEP Ohio agrees that Staff's revised chart reflects a representative sample of planned expenditures for 2014 and provides a proper comparison of past and planned expenditures.
- (10) Staff also recommends a revised method for quarterly comparisons between planned and actual DIR expenditures. Staff notes that, currently, AEP Ohio's quarterly progress reports must explain, for each DIR program, any quarterly variance exceeding 10 percent based on an assumption that DIR construction activity and expenditures would occur evenly throughout the year. Staff further notes that this assumption is incorrect, because, for many of the DIR programs, AEP Ohio spends the first part of the year planning construction activities that are carried out during the remainder of the year. Accordingly, Staff recommends that each quarterly progress report compare activity and expenditure levels planned specifically for that quarter against the levels actually achieved that quarter. Staff further recommends that the comparison be provided for each program and include explanations for any variances exceeding 10 percent.
- (11) As a general response to Staff's comments, OCC points out that Staff did not address AEP Ohio's failure to quantify, in the DIR plan for 2014, the reliability improvements expected from the Company's DIR spending, or the Company's lack of compliance with the Commission's directives in the *2013 DIR Plan Case*.

OCC Comments

- (12) In its comments, OCC argues that AEP Ohio should be required, pursuant to the Commission's orders in the *ESP Case* and the *2013 DIR Plan Case*, to quantify the reliability improvements that customers are expected to benefit from as a result of the DIR plan for 2014, before any additional customer funds are expended on the DIR. OCC points out that, in the *ESP Case*, the Commission directed AEP Ohio to quantify the expected reliability improvements in the DIR plan. OCC asserts that, given the inadequacies in the DIR plan for 2013, the Commission ordered, in the

2013 DIR Plan Case, that the DIR plan for 2014 should explain AEP Ohio's strategy for replacing its aging infrastructure and focusing DIR spending on where it will best improve or maintain reliability. OCC notes that AEP Ohio was also directed to address how the Company intends to ensure that its DIR expenditures are sufficient to result in improved reliability performance across the Company's entire service territory. OCC argues that, despite the Commission's directives, AEP Ohio again failed to quantify the expected reliability improvements.

- (13) Additionally, OCC emphasizes that the majority of AEP Ohio's planned capital spending for DIR programs in 2014 is not directed at improving or maintaining system reliability, as approximately \$117 million of the \$201 million in projected spending will have no reliability impact, according to the DIR plan. With respect to the remaining \$84 million, OCC contends that AEP Ohio failed to provide any substantive information in the Company's description of how the investments are expected to improve or maintain reliability. As one example, OCC notes that AEP Ohio plans to spend \$20 million on Distribution Circuit Asset Improvement, which, according to the DIR plan, "may" reduce customer interruptions and outages. OCC argues that AEP Ohio's description of this program does not quantify the expected reliability improvements or even affirmatively state that the program will improve reliability. OCC believes that AEP Ohio's program descriptions are overly general, providing no indication that the Company performed an analysis of its distribution system to determine the relative merits of investing in certain assets as opposed to others. OCC concludes that AEP Ohio has received the benefit of expedited cost recovery through the DIR, while customers have received no quantifiable reliability improvements and have actually experienced worse reliability performance since the DIR was approved.
- (14) In response, AEP Ohio asserts that the DIR plan for 2014 properly addresses each of the elements enumerated by the Commission in the *ESP Case* and the *2013 DIR Plan Case*. AEP Ohio points out that the DIR plan includes an expected reliability improvement, where applicable, for each

individual program and, where a reliability improvement would not be expected, in such cases as proactive distribution infrastructure replacement, no improvement was reflected because the work would instead address future outages and ensure system performance does not deteriorate. AEP Ohio emphasizes that the DIR plan includes reliability improvement programs, such as Lightning Mitigation, which is expected to reduce lightning caused outages by 50 percent for the impacted circuits. AEP Ohio states that this type of reliability quantification enables the Company to demonstrate improvement on the impacted circuits rather than use an arbitrary improvement number that may not be achieved if the work is not completed for various reasons.

- (15) AEP Ohio also argues that OCC's concern regarding DIR programs that do not involve reliability improvement was rejected in the *2013 DIR Plan Case*, because the DIR is intended to provide 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. AEP Ohio asserts that the DIR allows for proactive replacement of aging infrastructure and enables the Company to purchase and store equipment for when it is needed. With respect to Distribution Circuit Asset Improvement, AEP Ohio responds that OCC mischaracterizes the DIR plan, given that the plan provides details for the several components of this program. AEP Ohio adds that OCC presents an incomplete picture by focusing on certain elements of the DIR plan. Finally, AEP Ohio points out that OCC relies on data from years prior to implementation of the DIR, in support of its false claim that the Company's reliability performance has declined.
- (16) OCC recommends that the Commission find that the DIR plan for 2014 is unjust and unreasonable. OCC urges the Commission to establish a hearing schedule and process for resolving the issues identified in this proceeding and carried over from the *2013 DIR Plan Case*. OCC asserts that, because AEP Ohio is unwilling or unable to quantify the DIR's expected reliability benefits, the issues raised by the parties

in both cases should be adequately vetted in the interest of the customers that pay for the DIR programs.

- (17) AEP Ohio responds that the DIR plan for 2014 is just and reasonable and, therefore, that a hearing is not required. Noting that no party proposed specific modifications to the DIR plan for 2014, AEP Ohio contends that the plan already provides the necessary guidelines for reliability improvement, with ongoing interaction between the Staff and the Company to ensure that any issues are addressed. According to AEP Ohio, a hearing would unnecessarily delay the work needed on its distribution system in 2014.

Belden Comments

- (18) Like OCC, Belden asserts that the program descriptions contained in AEP Ohio's DIR plan for 2014 are overly general and provide insufficient detail to enable a reasonable determination of the Company's planned distribution work, the cost-effectiveness of the planned expenditures, and the reliability issues to be addressed. Belden states that, although it may be significantly affected by reliability issues, it cannot effectively analyze the impact of AEP Ohio's investments on the distribution system surrounding Belden's facilities. Belden recommends that AEP Ohio be required to make further disclosures regarding targeted and quantified expenditures, such that interested parties may effectively analyze the plan and address any perceived shortcomings.
- (19) In its reply comments, OHA states that it supports the initial comments filed by Belden and OCC. OHA asserts that AEP Ohio has again failed to quantify the reliability improvements associated with the DIR plan. OHA recommends that AEP Ohio be required to sufficiently quantify the DIR plan's reliability improvements before investments are made. OCC also supports Belden's comments.
- (20) In response to Belden's comments, AEP Ohio replies that the program descriptions contained in the DIR plan for 2014 are appropriate and provide adequate detail for a system-wide plan. AEP Ohio points out that the Company discussed each

program at length with Staff and revised the program descriptions based on Staff's guidance. AEP Ohio also notes that Staff will audit the Company's programs and ensure that the program descriptions are accurate in light of the work performed. Additionally, AEP Ohio contends that the DIR plan is not required to have information down to the customer level and instead is intended to consider the overall system. According to AEP Ohio, Belden does not provide any example of information that is needed in the DIR plan beyond that which is already provided. AEP Ohio concludes that the DIR plan for 2014 provides the necessary detail, following months of collaboration with Staff to develop a comprehensive and prudent investment strategy for improving and maintaining system reliability.

Commission Conclusion

- (21) In the *2013 DIR Plan Case*, the Commission directed that AEP Ohio's DIR plan for 2014 should explain the Company's strategy for replacing its aging infrastructure and focusing DIR spending on where it will best improve or maintain reliability. Further, the Commission stated that, consistent with our directives in the *ESP Case*, the DIR plan for 2014 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 Commission specified that 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. *2013 DIR Plan Case*, Finding and Order (May 29, 2013) at 13.
- (22) AEP Ohio's DIR plan for 2014, for the most part, consists of a chart listing the plan components, with columns showing a description of each component, measures for reliability improvements, a brief summary of the expected reliability improvements, equipment affected, estimated dollars, and estimated units. Although AEP Ohio included information regarding the expected reliability improvement for each plan component, where applicable, and briefly addressed

measures intended to protect against double recovery, the Company provided little information regarding its strategy for replacing aging infrastructure and focusing DIR spending on where it will best improve or maintain reliability. Neither does the DIR plan sufficiently 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. Further, the DIR plan does not demonstrate that 2014 DIR expenditures will exceed AEP Ohio's recent capital spending levels, although such analysis was provided by Staff in its comments.

- (23) Accordingly, the Commission directs AEP Ohio to quantify the actual reliability improvements achieved as a result of implementing the 2014 DIR plan and to file this data in conjunction with Staff's review of the Company's compliance with the 2014 DIR plan. For any program that is expected to reduce the frequency and/or duration of outages, AEP Ohio should quantify the actual reliability improvements achieved. For any program that is expected to maintain reliability, AEP Ohio should quantify the outages avoided by implementation of the DIR plan in 2014. AEP Ohio shall provide this information to Staff in writing by March 2, 2015. 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 2014 DIR plan, that the Company's actual 2014 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. The Commission's acceptance of AEP Ohio's 2014 DIR plan is contingent upon a positive outcome with respect to each of these next steps.
- (24) With these provisions in place, the Commission finds that the issues raised by OCC, Belden, and OHA regarding AEP Ohio's 2014 DIR plan and the extent of the Company's compliance with the directives set forth in the *ESP Case* and the *2013 DIR Plan Case* are appropriately addressed, and that a hearing in this matter is, therefore, unnecessary. Further, we emphasize that the DIR is reviewed annually for

accounting accuracy and prudence, and any concerns regarding AEP Ohio's DIR spending should be raised at that time. In response to OCC's concern that a significant portion of AEP Ohio's planned DIR spending in 2014 is expected to have no reliability impact, the Commission notes that the DIR, as approved in the *ESP Case*, consists of net capital additions to gross plant in service occurring after August 31, 2010, as adjusted for accumulated depreciation, and is not limited to investment in distribution assets that are expected to improve or maintain service reliability. *ESP Case*, Opinion and Order (Aug. 8, 2012) at 42. We agree, however, that AEP Ohio's DIR spending should be focused on those components that will best improve or maintain reliability, which is an issue that should be considered in conjunction with Staff's review of the Company's compliance with the 2014 DIR plan.

- (25) Additionally, the Commission finds that AEP Ohio should continue to provide Staff with quarterly status reports, in writing, and inform Staff regarding ongoing program specific construction activities, consistent with our directives in the *2013 DIR Plan Case*. We adopt Staff's recommended method for quarterly comparisons between planned and actual DIR expenditures, such that each quarterly progress report should compare activity and expenditure levels planned specifically for that quarter against the levels actually achieved that quarter. Such comparison should be provided for each program and include explanations for any variances exceeding 10 percent.
- (26) Finally, the Commission directs AEP Ohio to work with Staff to develop a DIR plan for 2015, in accordance with the following schedule:
 - (a) By October 1, 2014, AEP Ohio should provide Staff an update of its historical outage-by-cause data at the same level of detail that the Company has previously provided.
 - (b) By October 15, 2014, AEP Ohio should provide Staff a list of all DIR-related distribution capital programs proposed for 2015 and a listing of

equipment to be replaced for each program. For each program that AEP Ohio expects to maintain or improve reliability, the Company should include an explanation of how the program will bring about such a result.

- (c) By November 3, 2014, Staff should provide AEP Ohio a ranking of programs based on Staff's ratings of relative importance. These ratings should be guided by the results of Staff's analysis of AEP Ohio's historical outage-by-cause data.
- (d) By November 17, 2014, AEP Ohio should provide Staff the projected expenditures and associated activities/work units for each program.
- (e) By December 15, 2014, AEP Ohio should file its 2015 DIR plan.

AEP Ohio's DIR plan for 2015 should incorporate Staff's input and analysis, and comply with the Commission's directives set forth in the *ESP Case* and this Finding and Order. The 2015 DIR plan should guide AEP Ohio in planning and prioritizing its distribution investments from January 1, 2015, through the remainder of the current ESP term, which ends on May 31, 2015. The Commission will consider the issue of extension of the DIR and the 2015 DIR plan in the course of AEP Ohio's pending ESP proceedings, Case No. 13-2385-EL-SSO, et al.

It is, therefore,

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

ORDERED, That AEP Ohio implement its 2014 DIR plan, consistent with the terms of this Finding and Order. It is, further,

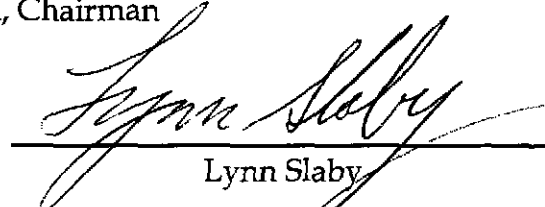
ORDERED, That AEP Ohio develop its 2015 DIR plan, in coordination with Staff, consistent with the terms of this Finding and Order. It is, further,

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


Thomas W. Johnson, Chairman


Steven D. Lesser


Lynn Slaby

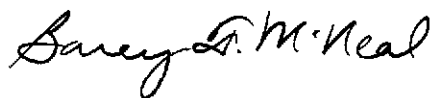

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Secretary