

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)
Ohio Power Company to Update Its)
gridSMART Rider) **Case No. 14-0192-EL-RDR**

REPLY COMMENTS OF OHIO POWER COMPANY

On February 3, 2014, Ohio Power Company (“AEP Ohio” or the “Company”) filed its 2014 application to update its gridSMART Rider (“Application”). The Application reflects actual gridSMART project spending and revenue recovery during 2013 and projected costs for 2014. On September 15, 2014, Staff of the Public Utilities Commission of Ohio (“Commission”) filed comments on the Company’s Application. AEP Ohio hereby responds to the comments filed by the Staff.

Community Energy Storage (CES) Batteries

AEP Ohio disagrees with the Staff’s recommendation that the Company reduce O&M expenses associated with the Community Energy Storage (CES) batteries. The Company has provided documentation and revised contracts with the Department of Energy around the reduced scope of the Community Energy Storage Pilot. The Department of Energy agreed to the limited Community Energy Storage Pilot and did not require any refund of stimulus funds relating to the Community Energy Storage Pilot. The CES project and gridSMART Phase I as a whole was approved by the Commission as a pilot program and the Company was required to test new and evolving equipment and report its findings to the DOE. The Company completed its obligation to test and report the CES results to the DOE.

The Staff has based its recommendation on the fact that the Commission’s order in the Company’s 2012 gridSMART update filing (Case No. 12-509-EL-RDR) stated that

the dollars at issue should be revisited once the CES batteries “are returned, tested, operational and ready to be installed.” The Company provided, in response to a Staff data request in this proceeding, an update of the number of CES battery units installed, operational and tested. The information provided described the quantity installed, location of the installation, which staff verified in a field audit, as well as the test results collected up through that point. The Company maintained clear communication with the Staff around the scope of the CES project throughout the process. Although the batteries were not deployed in the field, the Company gained valuable information about the technology through laboratory deployment and testing. The Company was required to test the CES batteries and the Company met its obligation to do so. The Staff verified that no discrepancies were noted from their field audit which included verification of the six CES units that were tested (Staff Comments at 5, 6). The staff physically verified the equipment in question and the Company provided Staff the testing results. The purpose of a pilot is to test the new technology and the Company met its performance obligation for the pilot project and, as such, should be able to recover the costs incurred associated with the CES pilot program.

Ultimately, the Company determined that the batteries were not performing as expected and acted prudently in its decision to return the batteries, renegotiate its contract with the battery vendor, and reduce the scope of the pilot – all to the benefit of the Company’s customers. The Company provided Staff information on the revised scope for the CES battery portion of the gridSMART pilot as approved by the DOE. In addition, the Company provided Staff with verification that no amounts for the CES project submitted for reimbursement by the DOE were denied, and the DOE did not

require the dollars spent to date on the CES portion of project to be returned since the original scope of the pilot project was reduced. The Company was able to learn and provide test results on the CES batteries based on the revised scope.

In Case No. 12-509-EL-RDR, the Commission ordered that the costs associated with the CES pilot be temporarily removed since the Company had yet to receive the batteries back from the vendor after returning them. In this proceeding, the Company provided the information that supports the revision of the CES scope. This is information that neither the Commission nor the Company had at the time of the order in Case No. 12-509-EL-RDR. The Commission should review the information provided by the Company to fully determine whether or not any costs should be disallowed. The circumstances between the Commission's previous order and now are completely different in that the scope of the project was modified. The Commission can now determine if the modification was prudent given the facts that the Company laid out. The batteries were not performing as expected, the Company removed the batteries, worked with the vendor and the DOE to adjust the scope of the CES portion of the project, re-installed, tested, and reported on the CES technology. Neither the investment nor the Company's actions in determining the best way to move forward have been questioned as imprudent. Therefore, the amount of the CES portion of the pilot should be approved.

The Staff's only support for its recommendation is that the costs should be denied because the units were not returned, tested, operational and ready for field deployment. In fact, the units were returned, tested and were in operation, just not in a residential area and not to the original tune of 80 batteries, but rather was limited to 6 units and the testing and deployment occurred in a laboratory setting. The Staff performed a field

audit to verify that the batteries were installed by the Company and were provided the testing information for the 6 batteries installed. Again, the Staff took no issues that the value paid by the Company for the CES units was prudent and the units were installed and being tested as staff verified location of the physical assets and were provided the test results.

The Company disagrees with Staff's position that there should be a disallowance of the O&M expenses incurred by the Company in connection with the CES pilot program, but if the Commission were to adopt Staff's position, the Company disagrees with Staff's determination of the amount of costs to be disallowed. The Staff has recommended an amount for disallowance based on the original scope of the CES project, which ignores the negotiated reduced scope of batteries the Company purchased from the vendor and the credit issued to the rider which reflects this reduction. The original scope of the CES program called for the Company to purchase 80 units from the vendor. The amount of disallowance that Staff suggests in its comments is based on its calculation of the cost of 38 batteries (the number of batteries the Company originally received before returning the batteries and reducing the scope of the project) plus overheads. The amount the Company originally paid was not for the entire scope of the CES project but was a progress payment towards the entire scope. The staff did not revise its calculation due to the fact that the circumstances have changed pertaining to the scope of the CES project and the fact that the Company was credited for all but the 6 batteries received, installed, and tested according to the modified scope of the project. Taking the reduced scope of the project into consideration and basing Staff's calculation on only the 6 batteries results in decrease to staff's original calculation to \$155,409.

Although the Company does not feel that a credit is warranted, if the Commission should adopt Staff's position, the adjustment should reflect only the costs incurred based on the reduced project scope, which is consistent with the charges collected by the Company through the rider.

Labor Adjustment

The Company agrees with the Staff's recommendations.

Capital Reconciliation Adjustment

The Company agrees with the Staff's recommendations.

CONCLUSION

The Company disagrees with the Staff's recommendation for the credit of CES Batteries as filed in this case. The Staff's position is based on the faulty premise that the units were never returned, installed and operational. In fact, as discussed above, the vendor returned 6 battery units to the Company and the returned batteries were installed and operation in a laboratory setting, rather than in residential communities, so that additional testing could be undertaken. The Company handled the smaller scope of CES prudently and was able to provide the data needed to test this technology in its gridSMART pilot. Therefore, Staff's position on the CES should be rejected.

If Staff's position is adopted by the Commission, Staff's calculation of the O&M expenses should be modified to reflect that the Company only received 6 battery units under the limited scope and only collected the costs associated with the reduced scope from customers. The Company recommends a new gridSMART rider rate of \$1.01 per customer for residential customers and \$4.22 per customer for non-residential customers. This recommendation differs from the Staff's by increasing the revenue requirement by

the difference in the amount of the Staff's CES adjustment of \$454,632 and the Company's updated proposal of \$155, 209, or \$299,223.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and accurate copy of the foregoing was served this 22nd day of October, 2014 by electronic mail upon the persons listed below.

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Summary: Comments Comments of Ohio Power Company electronically filed by Mr. Yazen Alami on behalf of Ohio Power Company