

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)
Ohio Power Company to Update Its) Case No. 14-192-EL-RDR
gridSMART Rider.)

**COMMENTS ON OHIO POWER COMPANY’S PROPOSAL TO COLLECT
GRIDSMART COSTS FROM CUSTOMERS
BY
THE OFFICE OF THE OHIO CONSUMERS’ COUNSEL**

I. INTRODUCTION

In this case, Ohio Power Company (“Ohio Power”) seeks to collect from customers more than \$27 million it claims are costs associated with its gridSMART program for 2013 and 2014. Approximately \$10.2 million of the costs comes from the alleged under-collection of Ohio Power’s actual gridSMART spending in 2013.¹ The remainder is for Ohio Power’s projected spending and a return on its investment for the gridSMART program in 2014.²

In its Application, Ohio Power proposes to collect \$1.11 per month from residential customers and \$4.63 per month from nonresidential customers through its gridSMART Rider (“Rider”).³ Compared to current rates, this is an increase of \$1.01 per month in the amount residential customers pay and \$4.21 per month in the amount nonresidential customers pay through the Rider.⁴

¹ See Application (February 3, 2014) at 2.

² See id., Attachment 1.

³ See id., Attachment 4.

⁴ See id.

In response to a Public Utilities Commission of Ohio (“PUCO”) Entry in this case,⁵ the Office of the Ohio Consumers’ Counsel (“OCC”) files Comments on Ohio Power’s proposal. The PUCO Staff previously filed comments on September 15, 2014. There, the PUCO Staff recommended reducing the gridSMART expenses collected from customers by approximately \$2.7 million.⁶ The PUCO Staff’s recommendations would mean that Ohio Power customers would pay less through the Rider than Ohio Power proposes: \$1.00 per month for residential customers and \$4.17 per month for nonresidential customers.⁷

In reply comments filed on October 22, 2014, Ohio Power disputed only part of the PUCO Staff’s proposed adjustment, i.e., the reduction of \$454,632 for community energy storage (“CES”) batteries. Ohio Power argued that it should be allowed to collect the entire \$454,632 from customers.⁸ In the alternative, Ohio Power contended that customers should pay \$299,223 in costs associated with a short-term operation of six CES batteries.⁹ Under Ohio Power’s alternative proposal, residential customers would pay \$1.01 per month and nonresidential customers would pay \$4.22 per month through the Rider.¹⁰

⁵ Entry (December 2, 2014).

⁶ See Comments Submitted on Behalf of the Staff of the Public Utilities Commission of Ohio (September 15, 2014) (“PUCO Staff Comments”) at 5.

⁷ Id. at 8.

⁸ Ohio Power Reply Comments at 2-5. The page numbering of Ohio Power’s Reply Comments began at page 2. OCC’s citations to Ohio Power’s Reply Comments will refer to the page numbering found in the document.

⁹ Id. at 6-7.

¹⁰ Id. at 6. Ohio Power did not state what the Rider’s rates should be if the PUCO allows Ohio Power to collect the entire amount for the CES batteries from customers.

The PUCO should be considering whether smart grid technology in general provides sufficient benefits for Ohioans commensurate with the costs that utilities seek to charge customers. In that vein, OCC agrees with the PUCO Staff that Ohio Power should not collect the \$454,632 for the CES batteries from customers. The CES batteries did not serve residential customers,¹¹ are no longer installed, and provided little, if any, benefit while in operation. The PUCO should reduce the amount to be collected from customers through the Rider by \$2.7 million, as the PUCO Staff recommended.

II. DISCUSSION

This case centers on whether Ohio Power's customers should pay for costs associated with six CES batteries Ohio Power used for a short period of time in a nonresidential area.¹² Ohio Power disputes the PUCO Staff's removal of \$454,632 associated with the CES batteries from the amount Ohio Power seeks to collect from customers.

Ohio Power's primary argument is that for a short time the batteries were installed and were operational on a limited basis, and thus all the costs associated with them should be collected from customers.¹³ Ohio Power also asserts that that the PUCO Staff overstated the number of CES batteries at issue in this case.¹⁴ In the alternative, Ohio

¹¹ See *id.* at 4.

¹² The PUCO Staff has identified approximately \$2.7 million in reductions to the amount Ohio Power seeks to collect from customers in this case. The specific reductions are: \$454,632 for CES batteries; \$2,019,825.61 for non-incremental labor that was included in a reclassification adjustment of certain capital projects from capital to operation and management ("O&M") expense; and a carrying cost reduction of \$233,183 that resulted from Ohio Power booking various O&M costs (totaling \$951,101) as capital costs. See PUCO Staff Comments at 5-8. Ohio Power agrees with the PUCO Staff's reductions for non-incremental labor and carrying costs. Ohio Power Reply Comments at 6.

¹³ Ohio Power Reply Comments at 2-5.

¹⁴ *Id.* at 4-5.

Power contends that customers should pay \$299,223 in costs associated with a short-term operation of six CES batteries.¹⁵ The PUCO should reject Ohio Power's arguments, and should reduce the amount customers will pay through the Rider by the entire \$2.7 million identified by the PUCO Staff.

A. The costs associated with the CES batteries do not meet the PUCO's criteria for collection from customers through the Rider.

CES is a small distributed energy storage unit connected to the secondary transformers serving a few houses or small commercial loads. A properly working CES benefits both customers and the electric distribution utility. For customers, CES provides backup power during loss of utility power supply; improves service reliability through reduced flicker and momentary interruptions, and improved voltage regulation; and stores wind or solar output until it is needed by directly accepting direct current output. For the electric distribution utility, CES levels load at the station and circuit; corrects power factor; improves operations including reduction of cold load pickup; lowers resistive loss in wires; and integrates into circuit voltage control.¹⁶

Ohio Power has had problems with the CES batteries for more than two years. Through its CES program Ohio Power planned to connect 25-kW lithium ion batteries on customer premises behind 80 secondary transformers.¹⁷ Ohio Power purchased 38 of the CES batteries and installed 15 at customer sites.¹⁸ But in June 2012 Ohio Power informed its gridSMART collaborative that the batteries for the CES units had been sent back to the manufacturer because of operational problems in the field.

¹⁵ Id. at 5.

¹⁶ See American Electric Power, "Issues in Electricity, Community energy storage."

¹⁷ See PUCO Staff Comments at 6.

¹⁸ See id.

In its 2012 gridSMART Rider case, Ohio Power tried to collect from customers \$2,139,049 in costs associated with the malfunctioning CES batteries.¹⁹ Both the PUCO Staff and OCC opposed Ohio Power's effort. The PUCO Staff noted that it was inappropriate to require customers to pay for Ohio Power's testing of the CES batteries:

While the gridSMART Phase 1 pilot is being undertaken for purposes of learning, the learning objectives do not include whether the batteries would work – the battery technology is mature – but rather how well they would achieve the purpose of mitigating localized load anomalies or fluctuations. This was not a test of battery technology, rather it was a test of the degree to which properly operating batteries could contribute to localized demand for power and related impacts on the distribution system.²⁰

In the previous Rider case, OCC stated that the CES units were not providing service to customers and there was no benefit derived from CES.²¹ Because the CES units were not being placed in service soon after they were purchased, and in fact might never provide service, customers should not have to pay for the CES units.²²

The PUCO agreed. In its Finding and Order in Case No. 12-509, the PUCO ruled that Ohio Power could not collect the costs associated with the CES batteries at that time. In so doing, the PUCO distinguished its decision in that case from an earlier gridSMART rider decision²³ that allowed Ohio Power to collect costs associated with distribution automation (“DA”) equipment that had been purchased but not installed:

Previously, despite the recommendation of Staff, the Commission found that the cost of DA equipment, purchased but not installed or installed but not yet activated, should be reflected in the

¹⁹ See Case No. 12-509-EL-RDR, Comments of the Staff of the Public Utilities Commission of Ohio (August 10, 2012) at 8-9.

²⁰ Id. at 9.

²¹ Case No. 12-509-EL-RDR, OCC Comments (August 10, 2012) at 5.

²² Id. at 6-7.

²³ Case No. 11-1353-EL-RDR, Opinion and Order (August 24, 2011) at 3.

gridSMART rider as the cost were incurred. The DA equipment would be installed and activated as personnel under AEP-Ohio's control were available to install, test and activate the equipment. However, in this case the CES Units, although partially paid for by AEP-Ohio, are not in the possession of AEP-Ohio to be tested, installed or activated. According to OCC, AEP-Ohio informed the collaborative that the CES Units would not likely be operational until late 2012 or 2013. In its replies, AEP-Ohio confirms that the CES Units will be delivered in 2013 and subsequently tested before the units can be installed and activated. Given the amount of time that will pass before the units are even returned to the Company for testing, the Commission finds it unreasonable for AEP-Ohio customers to incur the costs associated with CES Units, at this time. Although there is some disagreement whether the application of lithium ion technology in the utility industry for energy storage is new technology, the fact remains, as AEP-Ohio acknowledges, the CES Units did not perform in accordance with specifications and have been returned to the vendor. According to the schedule developed by the vendor and AEP-Ohio, the CES Units will not be returned to the Company until late 2013. Based on the information presented, the Commission finds that it is unreasonable for the partial payment for the batteries/ CES Units to be reflected in the gridSMART rider mechanism, at this time. Accordingly, as recommended by Staff, the Company is directed to reduce the gridSMART rider by \$2,139,049 until the CES Units are returned, tested, operational and ready to be installed.²⁴

Thus the PUCO established four criteria for Ohio Power to be able to collect the cost of the CES batteries from customers. The batteries must be (1) returned from the vendor, (2) tested, (3) operational and (4) ready to be installed. In this case, Ohio Power meets only some of these criteria, and thus should not be allowed to collect any of the \$454,632 in costs associated with the CES batteries.

Six of the original 38 batteries were returned from the vendor²⁵ and were put into operation as part of a battery test associated with the Department of Energy's ("DOE") payment of stimulus money to Ohio Power "to test new and evolving equipment and

²⁴ Case No. 12-509-EL-RDR, Finding and Order (October 3, 2012) at 10 (footnote omitted).

²⁵ See Ohio Power Reply Comments at 4.

report its findings to the DOE.”²⁶ This, however, is not the purpose of the battery test from the PUCO’s perspective. As the PUCO Staff previously noted, “This was not a test of battery technology, rather it was a test of the degree to which properly operating batteries could contribute to localized demand for power and related impacts on the distribution system.”²⁷

Ohio Power asserts that “the units were returned, tested and were in operation, just not in a residential area...”²⁸ But Ohio Power determined that the batteries did not perform as expected and returned them to the manufacturer.²⁹ Despite this short-term operation, “the fact remains, as AEP-Ohio acknowledges, the CES Units did not perform in accordance with specifications and have been returned to the vendor.”³⁰

The batteries are no longer in operation, have been removed so that they will not be operational in the future and do not provide a benefit (and apparently never did) to either customers or Ohio Power. Ohio Power’s request does not meet the criteria for collecting CES-associated costs the PUCO established in Case No. 12-509.³¹

Further, in order to collect costs of equipment from customers, the equipment must be “used and useful.”³² While the batteries were used for a short time, they were not useful because they did not perform the functions required of them and are no longer

²⁶ Id. at 2.

²⁷ Case No. 12-509-EL-RDR, Comments of the Staff of the Public Utilities Commission of Ohio (August 10, 2012) at 9.

²⁸ Ohio Power Reply Comments at 4.

²⁹ See id. at 2.

³⁰ Case No. 12-509-EL-RDR, Finding and Order (October 3, 2012) at 10

³¹ In fact, the batteries have not been “purchased but not installed or installed but not yet activated,” and thus the batteries also do not meet the criteria the PUCO set forth in Case No. 11-1353-EL-RDR.

³² See R.C. 4909.15.

in operation. Customers should not have to pay for equipment that does not provide service.

This is especially true for residential customers, because Ohio Power admits that the batteries were not installed in a residential area. Residential customers should not pay for equipment that was not used for residential service.

In addition, Ohio Power has already renegotiated its contract with the vendor,³³ and thus apparently has received benefit from the renegotiated contract.³⁴ Further, Ohio Power apparently did not have to return any stimulus money to the DOE,³⁵ and thus has received compensation for its battery test – compensation Ohio Power apparently has not been passed along to customers. Ohio Power’s request to collect CES-associated costs from customers should not be approved.

B. Contrary to Ohio Power’s assertion, the PUCO Staff did not base its recommendation on the wrong number of CES batteries.

Ohio Power asserts that the PUCO Staff erroneously based its recommendation on the costs associated with 38 CES batteries that the PUCO disallowed in a previous gridSMART Rider case.³⁶ Ohio Power states that only six CES batteries are involved in this proceeding, and that “[t]he 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

³³ Ohio Power Reply Comments at 3.

³⁴ Ohio Power claims that customers benefitted from this renegotiated contract (id.), although it does not explain what the benefit is.

³⁵ Id at 2.

³⁶ Id. at 4-5.

according to the modified scope of the project.”³⁷ Ohio Power claims that customers should at least pay \$299,223 in costs associated with the CES batteries.³⁸ Ohio Power is wrong.

In addition to offering no calculations to support the amount it says customers should pay, Ohio Power is mistaken in its claim that the PUCO Staff overstated the number of CES batteries at issue in this case. In its September 15 comments, the PUCO Staff noted that “[i]n response to data requests, AEP-Ohio indicated that six CES batteries were returned from the vendor and that five of these batteries are operational.”³⁹ The PUCO Staff thus addressed only the costs associated with six CES batteries.

Ohio Power’s argument is faulty. The PUCO should approve the PUCO Staff’s entire recommended reduction in the amount customers will pay through the Rider.

III. CONCLUSION

The PUCO Staff was correct in recommending that Ohio Power’s customers not pay for costs related to the CES batteries. The CES batteries did not serve residential customers, are no longer installed, and provided little, if any, benefit to consumers while in service. To protect consumers from paying for improper gridSMART costs, the PUCO should reduce the amount Ohio Power will collect from customers by the entire \$2.7 million recommended by the PUCO Staff in its September 15, 2014 comments.

³⁷ Id.

³⁸ Id. at 7.

³⁹ PUCO Staff Comments at 7.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of these Comments was served on the persons stated below via electronic transmission this 6th day of January 2015.

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Summary: Comments Comments on Ohio Power Company's Proposal to Collect gridSMART Costs from Customers by the Office of the Ohio Consumers' Counsel electronically filed by Patti Mallarnee on behalf of Etter, Terry L Mr.