

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

**OHIO POWER COMPANY’S REPLY COMMENTS**

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. On October 22, 2014 AEP responded by submitting reply comments. On December 2, 2014 the Attorney Examiner in this case set a procedural schedule which set forth due dates of January 6, 2015 for initial comments and January 20, 2015 for reply comments. On January 6, 2014, the Ohio Consumers’ Counsel (“OCC”) filed comments on the Company’s Application. AEP Ohio hereby responds to the comments filed by the OCC.

AEP Ohio disagrees with OCC’s recommendation that the Company reduce O&M expenses associated with the Community Energy Storage (CES) batteries. The OCC, like the Staff, argues that the costs associated with CES batteries should be eliminated from the rider. OCC’s primary argument is based on a faulty premise (similar to the Staff’s) that the units were never returned from the vendor, tested, operational and ready to be installed. The Company’s October 22, 2014 response to the comments filed by Staff provides support for the Commission to reject this position on CES. In its October 22 comments, the Company discussed the revised

scope of the CES project that was negotiated with the Department of Energy (“DOE”) and the battery vendor after the Company determined that the batteries were not performing as expected. The scope of the project was reduced from 80 battery units to 6. The 6 battery units the Company ultimately purchased from the vendor were installed and tested in a laboratory during which the Company was able to observe how the batteries operated under different load scenarios like those the batteries would experience if deployed in a neighborhood setting. The Company gained valuable information about the technology through this laboratory deployment and testing. The Staff performed a field audit and verified that the 6 units were installed and was provided the results of the laboratory tests. The CES project was approved by the Commission as a pilot program to test new and evolving technology, and the Company has satisfied its performance obligation for the pilot project. After determining that the batteries initially received were not performing as expected, the Company acted prudently in its decision to return the batteries, renegotiate its contract with the battery vendor, and significantly reduce the scope of the pilot – all to the benefit of the Company’s customers. The Company should be permitted to recover the costs incurred associated with the CES pilot program.

OCC also argues that the CES equipment was not “used and useful.” (OCC Comments at 7). However, this argument too is based on a misunderstanding of the nature of the CES pilot program. In its August 24, 2011 Opinion and Order in Case No. 11-1353-EL-RDR, the Commission stated, “In the ESP, the Commission approved a gridSMART rider, as opposed to distribution rate increases over the term of the ESP, to better facilitate the audit of expenditures. In this case, as approved by the Commission, in order to encourage the expedient installation and operation of gridSMART technologies, prudent gridSMART investments ***are recoverable as costs are incurred.***” *In the Matter of the Application of Ohio Power Company to Update Its*

*gridSMART Rider*, Case No. 11-1353-EL-RDR, Opinion and Order at 3 (August 24, 2011) (Emphasis added). Since gridSMART investments are recovered as dollars are spent the “used and useful” concept does not control.

In section B of its comments (OCC Comments at 8, 9), the OCC states that “Contrary to Ohio Power’s assertion, the PUCO Staff did not base its recommendation on the wrong number of CES batteries.” Further stating that the Company offered, “no calculations to support the amount it says customers should pay” and that, “Ohio Power is mistaken in its claim that the PUCO Staff overstated the number of CES batteries at issue in this case.”

This is absolutely wrong. In the Company’s October 22, 2014 reply comments to Staff the Company stated that, “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.” It is clear on the Company’s compliance Attachment 3 filed on October 10, 2012 in gridSMART case 12-509-EL-RDR that the Staff’s recommended adjustment of \$454,632 is based on the partial cost of 38 batteries (See Exhibit 1 attached hereto). Additionally, in the current case, in reply to Staff Data Request 25-003 the Company did provide a calculation supporting an O&M adjustment of \$155,409 based on the cost of the 6 batteries that were ultimately received from the vendor. (See Exhibit 2 attached hereto). The \$155,409 amount is the total cost of the 6 batteries purchased by the Company; the \$454,632 amount was the amount of partial payment initially paid by the Company for the 38 batteries that were eventually returned to the vendor. As the Company stated in its October 22, 2014 reply comments to Staff, “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.”

### **CONCLUSION**

The Company disagrees with OCC's recommendation for the credit of CES Batteries as filed in this case. The OCC's position is primarily based on the same faulty premise that the Staff used, *i.e.*, that the battery units were never returned, installed and operational. As discussed above and in the Company's October 22, 2014 response to the comments filed by Staff, the Commission should reject OCC's (and Staff's) position on this issue. The purpose of the CES pilot is to test the new technology and the Company met its performance obligation for the pilot project and, as such, should be permitted to recover the costs incurred associated with the CES pilot program. If OCC's position is nevertheless adopted by the Commission, Staff's calculation of the O&M expense adjustment should be modified to reflect the fact that the Company only received 6 battery units under the limited scope of the pilot and, consequently, only collected the costs associated with the reduced scope from customers. As stated in its October 22, 2014 reply comments to Staff, 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 (and the OCC'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 \$155,409, or \$299,223.

Respectfully submitted,

/s/ Yazen Alami

Steven T. Nourse

Matthew J. Satterwhite

Yazen Alami

AMERICAN ELECTRIC POWER SERVICE  
CORPORATION.

1 Riverside Plaza, 29<sup>th</sup> 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

### **CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a true and accurate copy of the foregoing was served via electronic mail upon the individuals listed below this 20<sup>th</sup> day of January, 2015.

/s/ Yazen Alami

ryan.orourke@puc.state.oh.us

terry.etter@occ.ohio.gov

jennifer.spinosi@directenergy.com

joseph.clark@directenergy.com



American Electric Power  
1 Riverside Plaza  
Columbus, OH 43215-2373  
AEP.com

October 10, 2012

Betty McCauley  
Docketing Division Chief  
Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus Ohio 43215-3793

Re: *In the Matter of the Application of Ohio Power Company to Update its  
gridSMART Rider, Case No. 12-509-EL-RDR*

Dear Ms. McCauley:

Enclosed for filing are Ohio Power Company's compliance schedule and proposed tariffs which are being filed in accordance with the Commission's Finding and Order dated October 3, 2012, in Case No. 12-509-EL-RDR.

The compliance schedule attached as Attachment 1 reflects the adjustments made to the Company's gridSMART Rider consistent with the October 3<sup>rd</sup> Finding and Order. Attachment 2 details the capital and O&M adjustments made to the per diem expense pursuant to the Order. Attachment 3 details the adjustment to remove the CES battery expense as recommended by Staff and ordered by the Commission. The Company has also removed a portion of the loss on the disposition of meters as ordered. Adjustments to capital were made in accordance to the month they were entered to correctly calculate the removal of the associated carrying charge. Attachments 2 and 3 both reflect additional corrections from Staff's original calculations; however, the Company and Staff worked together in this regard and Staff is in agreement with the corrections.

As part of its application in this case, the Company requested that the carrying cost rates approved as part of the Company's modified ESP II case be applied to the gridSMART rider. Exhibit RVH-4, which reflects those carrying cost rates, was corrected in the modified ESP II case through Staff's Data Request number 201. Attachment 4 shows the corrected version of Exhibit RVH-4 that was approved as part of the Company's modified ESP II proceeding.

In addition to the above adjustments, the Company has also removed the estimated O&M Expense for 2012. The Company has determined that actual spending to date is significantly below the estimate. In order to mitigate the 2012 over-recovery, the Company is proactively taking this opportunity to lower the forecasted 2012 revenue

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requirement to more closely reflect actual expenditures. Lastly, consistent with the Commission's August 8, 2012, Order in the Company's modified ESP II proceeding, the Company has calculated a unified gridSMART rate for both the Ohio Power and Columbus Southern Power rate zones.

A copy of the Company's tariff filing should be filed in Case No. 12-509-EL-RDR and provided to the Rates and Tariffs, Energy and Water Division of the Commission's Utilities Department.

Please feel free to contact me with any questions.

Regards,

/s/ Yazen Alami

Steven T. Nourse

Yazen Alami

American Electric Power Service  
Corporation

1 Riverside Plaza, 29th Floor

Columbus, Ohio 43215

Telephone: (614) 716-2920

Fax: (614) 716-2950

Email: [stnourse@aep.com](mailto:stnourse@aep.com)

[yalami@aep.com](mailto:yalami@aep.com)

Counsel for Ohio Power Company

cc: Parties of Record

**CES Battery Adjustments**

<b>Batteries Returned to the Contractor</b>						
Quantity of batteries returned	38					
Partial advance payment per unit	\$ 22,864.23					
Cost of returned batteries		\$ 868,840.77				
		(868,840.77)				
<b>Adjustment:</b>		<b>\$</b>				
Month:	Mar					
Year Life:	10					
						\$ 434,420.38

Source  
 DR 19-4  
 See tab labeled "Partial"  
 [38 x \$22,864.23]  
 To remove the cost of returned batteries from Rider  
 Month charged was accrued  
 DR 1 (W002188501)

DOE Reimbursement

**Construction Overhead on Returned Batteries**

April construction overhead rate	0.046525					
Associated construction overhead		\$ 40,422.82				
		(40,422.82)				
<b>Adjustment:</b>		<b>\$</b>				
Month:	April					
Year Life:	10					
						\$ 20,211.41

Response to DR 30  
 [0.046525 x \$868,840.77 cost of returned batteries]  
 To remove associated construction overhead  
 Month of overhead charge ( invoice was paid in April)  
 DR 1 (W002188501)

DOE Reimbursement

**Redundant Charges for Returned Batteries**

Indus charge for 15 batteries installed in December	0.064749					
December construction overhead rate		\$ 74,785.10				
Associated construction overhead		\$ 1,229,785.10				
Total additional charges relating to returned batteries		(1,229,785.10)				
<b>Adjustment:</b>		<b>\$</b>				
Month:	Dec					
Year Life:	10					

DR 5 Q5 and DR 19 Q4  
 Response to DR 30  
 [0.064749 x \$1,155,000]  
 To remove redundant charges  
 DR 5 Q5  
 DR 1 (W002188501)

DOE Reimbursement

**Grand total of above adjustments:** \$ (2,139,048.68)

DOE Reimbursement	\$ 454,631.79
CES Adjustment Compliance	\$ (1,684,416.89)



**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**10/10/2012 9:25:39 AM**

**in**

**Case No(s). 12-0509-EL-RDR**

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

OHIO POWER COMPANY'S RESPONSES  
TO THE PUBLIC UTILITIES COMMISSION OF OHIO'S  
DATA REQUESTS  
PUCO CASE 14-0192-EL-RDR  
TWENTY-FIFTH SET

**DATE REQUEST**

DR-25-003 Please provide an Excel spreadsheet showing the calculations that support AEP's recommendation to reduce Staff's adjustment from (\$454,632) to (\$155,209).

**RESPONSE**

Please see Staff DR25-003 attachment for requested information.

Staff's CES Battery Adjustment		\$ 454,632	Source: Case No. 12-509-EL-RDR Compliance Workpapers filed October 10, 2012 Attachment 3
Unit Price of Returned Batteries	\$49,500		Case No. 14-0192-EL-RDR "Staff DR25-001" attachment (Invoice# 955998)
Quantity	<u>6</u>		
Total	\$297,000		
Construction Overhead on Returned Batteries	<u>1.046525</u>		Case No. 12-509-EL-RDR Compliance Workpapers filed October 10, 2012 Attachment 3
Total	\$310,818		
	<u>/2</u>		
AEP's Recommended Adjustment		\$155,409	

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**1/20/2015 4:10:28 PM**

**in**

**Case No(s). 14-0192-EL-RDR**

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