

In the Matter of the Distribution )  
Investment Rider Contained in the Tariffs ) Case No. 15-066-EL-RDR  
of Ohio Power Company. )

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the Utility's distribution maintenance plan.<sup>4</sup> In 2013 AEP Ohio spent over \$188 million for infrastructure expenditures that have delivered few quantifiable improvements for consumers in service reliability.

The Office of the Ohio Consumer's Counsel ("OCC") files these Comments<sup>5</sup> to address the audit of the DIR Program, and its shortcomings. OCC urges the PUCO to adopt the recommendations that are discussed in detail below. OCC's recommendations are designed to protect AEP Ohio's customers from bearing costs that were not prudently incurred and costs that do not produce quantifiable reliability improvements.

## II. COMMENTS

### A. **The Review performed by the auditor lacked sufficient details and appeared to have been an audit that simply checked the math. Such a review does not protect customers from paying too high rates.**

The Order establishing the DIR stated that the annual review must be done by an independent auditor. The Utility's DIR expenditures shall be reviewed for accounting, accuracy, and prudence.<sup>6</sup> Previously, audits provided detailed findings and recommendations analyzing the Utility's DIR spending in terms of prudence. For example, two years ago, Blue Ridge Consulting performed the audit, filed an 86 page report that included four appendices, 17 tables, and 5 Figures<sup>7</sup> Last year's auditor, Larkin & Associates PLLC, submitted a 144 page detailed report that contained an appendix,

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<sup>4</sup> *Id.* at 47.

<sup>5</sup> AEP Ohio and other intervenors are permitted to file Initial Comments by December 10, 2015 and Reply Comments by December 28, 2015. Entry at 2 (November 19, 2015).

<sup>6</sup> *ESP II*, Order at 47 (Aug. 8, 2012).

<sup>7</sup> *In the Matter of the Review of the Distribution Investment Rider Contained in the Tariffs of Ohio Power Company*, Case No. 13-419-EL-RDR, Blue Ridge Consulting Services, Inc. Report (June 19, 2013).

listing all of the auditor's discovery requests, and attached 62 exhibits.<sup>8</sup> This year's Baker Tilly's Report is 23 pages.<sup>9</sup>

According to the PUCO's directive, the annual DIR audit must report on whether the Utility's expenditures are prudent.<sup>10</sup> As part of a prudency evaluation, when evaluating plant used in providing electric service, auditors normally perform some field inspections to actually verify that the plant is in service. As demonstrated in the 2013 DIR case<sup>11</sup>, the Blue Ridge Report contains a section entitled "Field Inspections" and provides 28 pictures of DIR plant.<sup>12</sup> Blue Ridge also provided specific information about many projects. For example, the Blue Ridge audit found the following: "The final cost of the project was \$91,695.12, and the in-service date was December 2012. This physical observation confirmed that the assets were installed, are used and useful to the customer, and are properly includable in utility plan in service. Nothing unusual was noted. Photographs of the site are below, and additional photographs are included in the workpapers."<sup>13</sup> And last year's audit report also contained a "Field Inspections" section that has 37 photographs verifying that the plant is actually in service.<sup>14</sup> In addition, the auditors that performed field visits "confirmed that the assets were visible, are used and

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<sup>8</sup> *In the Matter of the Distribution Investment Rider contained in the Tariffs of Ohio Power Company*, Case No. 14-255-EL-RDR, Larkin & Associates PLLC Report (June 19, 2014).

<sup>9</sup> Baker Tilly Report (Aug. 6, 2015).

<sup>10</sup> Entry at 1 (Feb. 11, 2015).

<sup>11</sup> *In the Matter of the Review of the Distribution Investment Rider Contained in the Tariffs of Ohio Power Company*, Case No. 13-419-EL-RDR, Blue Ridge Consulting Services, Inc. Blue Ridge Report (June 20, 2013).

<sup>12</sup> *Id.*, at 29 – 33, (June 20, 2013).

<sup>13</sup> *Id.*, at 31 (June 20, 2013).

<sup>14</sup> *In the Matter of the Distribution Investment Rider Contained in the Tariffs of Ohio Power Company*, Case No. 14-255-EL-RDR, Larkin & Associates PLLC Report at 8-2 – 8-11 (June 19, 2014).

useful, and the installed assets were the same as in the original scope of work.”<sup>15</sup> In this instance, it appears that Baker Tilly did not perform any field inspections.

Ohio Power’s actual DIR expenditures for the 2014 year were \$223,868,654.<sup>16</sup> Staff filed Comments regarding the Utility’s \$223 million expenditures in August, which reflected there was no field inspection verifying plant in service.<sup>17</sup> The review completed by the independent auditor is simply a mathematical review, lacking a prudence analysis.

**B. The PUCO must order Ohio Power to follow updated tax modifications that could save millions of dollars for consumers.**

There are several accounting modifications that Ohio Power can implement that can provide millions of dollars of benefits to consumers. In 2013, the IRS finalized regulations that greatly expanded the allowance of certain expenditures, which are capitalized on taxpayers’ books of account, as current deductions for income tax purposes.<sup>18</sup> Based upon the experience of other electric utilities in other jurisdictions that have already implemented the expanded deductions, the DIR revenue requirement can potentially be reduced. Another tax calculation that the Utility can implement to benefit the DIR cost burden to its customers is to eliminate a double recovery of property taxes in 2014. And Ohio Power can further reduce the DIR revenue requirement. OCC urges to PUCO to Order the Utility to implement these tax accounting changes in order to save consumers millions of dollars in charges.

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<sup>15</sup> *Id.*, at 8–5, (June 19, 2014).

<sup>16</sup> Staff Comments at 3 (Aug. 6, 2015).

<sup>17</sup> Staff Comments (Aug. 6, 2015).

<sup>18</sup> 26 C.F.R. Parts 1 and 602, Fed. Reg. Vol. 78, No. 182 (Sept. 19, 2013).

**1. If Ohio Power had implemented certain income tax accounting changes, its DIR revenue requirement would have been significantly reduced.**

In September 2013 the IRS adopted final regulations providing guidance regarding deduction and capitalization of expenditures related to tangible property.<sup>19</sup> The effect was to formalize the expansion of the treatment of certain expenditures (which are capitalized on taxpayers' books of account) as current deductions for income tax purposes (referred herein to as "capital repairs deductions"). Many regulated utilities had already implemented the capital repairs deductions expansion even before the final regulations were issued in 2013. This change in tax accounting would decrease the income taxes currently payable and its authorization is automatic. But, based on the responses to OCC INT 02-010 through 02-013,<sup>20</sup> AEP Ohio has not implemented this tax accounting change. And the effect of the tax accounting change is not reflected in the determination of the Company's DIR revenue requirement billed to consumers.

Based on the experience of other electric utilities that have already implemented the expanded deductions, the capital repairs deduction can be equal to at least 25% of distribution plant additions in a given year. In 2014 AEP Ohio added approximately \$255 million of electric distribution plant. If the expanded repairs deduction were equal to 25% of this amount, the additional income tax deduction would be \$63.8 million. This in turn would increase the balance of accumulated deferred income taxes ("ADIT") by 35% of the incremental tax deduction, or \$22.3 million. Based on the return component of

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<sup>19</sup> 26 C.F.R. Parts 1 and 602, Fed. Reg. Vol. 78, No. 182 (Sept. 19, 2013).

<sup>20</sup> Responses to OCC INT 02-010 – 02-013, Attachment A.

10.96%, the ADIT benefit would be increased by \$2.4 million, and the DIR revenue requirement would be reduced accordingly.

In addition, the revenue requirement would be affected by the Section 481(a) adjustment. Assuming that the Section 481(a) deduction would be equal to 5% of the \$3.873 billion of gross distribution plant in service as of the end of 2013, the tax deduction would be \$193.6 million, resulting in an increase to the balance of ADIT of \$67.8 million. Based on the return component of 10.96%, the ADIT benefit would be increased by an additional \$7.4 million, and the DIR revenue requirement would be reduced accordingly.

With these assumptions, the total reduction to the Company's 2014 DIR revenue requirement, from the going forward increase to the repair allowance deduction plus the effect of the Section 481(a) adjustment, would be approximately \$9.8 million. Given the potential magnitude of the benefits of the expanded repairs deduction, the Commission should require AEP Ohio to quantify the effect of the implementing the tax accounting changes pursuant to the final Tangible Property Regulations adopted by the IRS in September 2013. Unless the Company can justify its failure to take advantage of these available tax benefits, the ADIT benefits of the tax deductions should be imputed in the calculation of the DIR revenue requirement.

**2. The mechanics of the DIR have resulted in an over-recovery of property taxes in 2014 that must be corrected. Otherwise, customers will be overcharged.**

The DIR revenue requirement includes a component for property taxes. In particular, the carrying charge rate of 20.56% applied to the Adjusted Change in



Distribution Plant includes a 5.66% component for property taxes.<sup>21</sup> The mechanics of the DIR appear to have resulted in an over-recovery of property taxes in 2014.

The total property taxes recovered in rates in 2014 consisted of two components: property taxes recovered in base rates and property taxes recovered in the DIR. The property taxes recovered in base rates can be calculated from the filings in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR, the Company's most recent distribution rate cases. The total property tax expense included in the revenue requirement in those cases was \$125,440,000, as can be seen in the following table:

Ohio Power Company  
Case No. 15-0066-EL-RDR  
Property Tax Recovery  
(\$000)

		CSP Case No. 11-351	OP Case No. 11-352	Total
Test Year Property Taxes	A	70,758	54,682	125,440
Allocated to Distribution Plant	B	98.78%	98.25%	
Property Taxes on Distribution Plant in Base Rates		69,898	53,727	123,624
Increase in Distribution Plant through 6/30/2014	C			387,014
Property Taxes in DIR	D		5.66%	21,891
Total Property Tax Recovery in 2014				145,515
Total 2014 Property Taxes Charged	E			199,392
Allocated to Distribution and Transmission Plant	F		98.91%	197,215
Property Taxes on Distribution Plant - 2014	F		67.19%	132,501
Excess Recovery of Property through DIR				13,014

- A. Schedule C-2.1
- B. Based on net plant, Schedule B-1  
With 85/24 weights to distribution-general for taxable value percentages
- C. DIR Adjustment 5/22/2014

<sup>21</sup> Response to BT INT 1-11, Attachment B.

- D. INT BT-1-11, Attachment 3
- E. 2014 FERC Form 1, Page 262.1
- F. Based on net plant; 2044 FERC Form 1, Pages 207, 219  
With 85/24 weights to T&D-general for taxable value percentages

Of this amount, \$123,624,000 was attributable to distribution plant, with the remainder attributable to general plant and materials and supplies. This represents the property taxes on distribution plant presently being recovered in base rates.

As of June 30, 2014, the mid-point of the year, the “Adjusted Change in Distribution Plant” used in the calculation of the DIR revenue requirement was \$387,014,000. Applying the 5.66% property tax component of the carrying charge rate to this plant balance, the result is approximately \$21,891,000 of property taxes being recovered through the DIR based on 2014 net distribution plant balances.

The total of property taxes recovered in base rates plus property taxes recovered in the DIR based on 2014 net distribution plant balances was \$145,515,000. Based on the AEP Ohio 2014 FERC Form 1, the total of property taxes charged in 2014 was \$199,392,000. Of this amount, \$132,501,000 was attributable to distribution plant, with the remainder being attributable to transmission and general plant. Thus, the mechanics of the DIR resulted in an over-recovery of property taxes on 2014 distribution plant of approximately \$13 million.

In approving the DIR in Case No. 11-346-EL-SSO, et al., the Commission stated that, “The proactive distribution infrastructure plan shall quantify reliability improvements expected, *ensure no double recovery*, and include a demonstration of DIR expenditures over projected expenditures and recent spending levels.”<sup>22</sup> The sum of

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<sup>22</sup> *ESP II*, Order at 47 (emphasis added).

property taxes recovered in base rates and in the DIR exceeds the actual property expense charged in 2014. Thus, the DIR has resulted in a double recovery of property taxes in 2014. This double recovery must be rectified.

**3. Ohio Power is already recovering certain employee time in base rates and should not also seek recovery of these same costs from customers through the DIR**

In 2014, the Utility's time reporting guidelines for safety meetings were changed to allocating a percentage of an employee's safety meeting time to capital based on the capital/O&M split of the employee's direct labor. This change was done to reflect that safety meetings are related to work performed by the employees for both capital and O&M projects.<sup>23</sup> The effect of this change was to increase amount of expenditures capitalized, as opposed to being expensed. The modified capitalization policy does not appear to be improper. However, the timing of the change raises a potential concern regarding double recovery of costs.

The changes in capitalization policy entailed the capitalization of costs that had been previously charged to expense. The test year in the Utility's most recent distribution rate cases was the twelve months ended May 31, 2011.<sup>24</sup> Thus, the effect of the 2014 change to capitalization policy was not reflected in the test year in those cases. All employee time for safety meetings would have been treated as operation and maintenance expense in the twelve months ending May 31, 2011 and included as a current annual ongoing expense in the determination of the Utility's revenue requirement. The Utility is

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<sup>23</sup> Response to OCC INT-3-055, Attachment C.

<sup>24</sup> *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company, Individually and, if Their Proposed Merger is Approved, as a Merged Company (collectively, AEP Ohio) for an Increase in Electric Distribution Rates*, Case No. 11-351-EL-AIR, et. al., Entry at 5 (Feb. 23, 2011).

already recovering such costs in rates each year as ongoing expenses for as long as the base rates established in its most recent rate cases are in effect. By capitalizing a portion of the employee time for safety meetings and including them in distribution plant in 2014, the Utility is also collecting a return on and of those same costs in the DIR, resulting in a double recovery of costs.

The PUCO should require AEP Ohio to quantify the effect of the change in capitalization policy to allocate a percentage of an employee's safety meeting time to capital based on the capital/O&M split of the employee's direct labor. The increase in the plant as a result of this change in capitalization policy should then be eliminated from the plant additions included in the DIR revenue requirement.

**C. Despite the fact that the Utility has charged customers over \$553 million between 2012 and 2014 on the DIR, Ohio Power's service reliability for its customers has degraded between 2010 and 2014.**

Between 2012 and 2014, Ohio Power charged customers \$553 million on the DIR. In approving the DIR, the Commission specifically emphasized its goal of modernizing the distribution infrastructure before reliability performance standards take a negative turn. The Commission premised DIR approval on just this point as seen in the Commission Order.

We believe that it is detrimental to the state's economy to require the utility to be reactionary or allow the performance standards to take a negative turn before we encourage the electric utility to proactively and efficiently replace and modernize infrastructure and, therefore find it reasonable to permit the recovery of prudently incurred distribution infrastructure investment costs.<sup>25</sup>

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<sup>25</sup> *ESP II*, Order at 47 (August 8, 2012).

Despite the Commissions objectives for DIR, a closer examination of Ohio Power’s reliability performance data indicates that reliability is taking a negative turn. This trend is reflected in Table 2, below, which examines the Utility reliability index performance from 2010 through 2014. Accelerated recovery of investment costs through the DIR began in 2011. These indices exclude major event data that can vary significantly from one year to the next due to weather. For each of the years 2010 through 2012, separate reliability index data for Columbus Southern Power and Ohio Power were combined on a customer-weighted basis to reflect the merged Ohio Power Company.

**Table 2: Ohio Power Reliability Performance 2010 – 2014**

AEP - OPC*	2010	2011	2012	2013	2014
CAIDI	139.98	146.53	147.23	140.97	146.61
SAIFI	1.10	1.23	0.98	1.03	1.13
SAIDI	153.73	180.23	144.87	145.20	165.67
Customers	1,447,212	1,446,871	1,447,191	1,453,647	1,455,393
*Index data for 2010 - 2012 reflects the customer-weighted average of values from CSP and OPC.					

Each of three reliability indices reflected in Table 1 is higher in 2014 than it was in 2010, before the DIR began. A higher value reflects an increased frequency of and/or an increased duration of service interruptions. Therefore, Table 1 demonstrates conclusively that Ohio Power customers are receiving decreased service reliability at the same time they are paying more on a monthly basis for the DIR Rider.<sup>26</sup> CAIDI, the customer average interruption duration index, reflects the duration, in minutes or hours, of the average service interruption experienced by customers experiencing an

<sup>26</sup> Residential customers using 1,000 KWH per month are currently paying \$6.82/ month (or \$81.84 annually) for the DIR. <https://www.aepohio.com/account/bills/rates/AEPOhioRatesTariffsOH.aspx>

interruption. SAIFI, the system average interruption frequency index, reflects the number of service interruptions experienced by the average customer during the year. SAIDI, the system average interruption duration index, reflects the minutes or hours of service interruption experienced by the average customer during the year.

It is hard to imagine that during a period of increased spending on distribution system upgrades and modernization investments, customers could be experiencing worse reliability. A prudence review of the Utility's expenditures is required to ascertain that the spending has been just.

**D. The 2014 DIR is not achieving the reliability improvements for customers as claimed by the Utility or in the Staff Report.**

Staff's Comments regarding the Utility 2014 DIR plan state that one of its objectives is the quantification of the reliability improvement achieved by implementing the 2014 DIR programs.<sup>27</sup> The Commission specifically required this quantification of expected reliability improvements when approving the 2014 DIR plan.<sup>28</sup>

Consistent with the directives of the ESP Case Order, the 2014 DIR plan 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.<sup>29</sup>

Unfortunately, the quantification of reliability improvements that is included in Staff's Comments conflicts with the actual reliability performance reported by the Utility. It also raises questions about the reasonableness or usefulness of the reliability impact data that was provided. Staff claims that:

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<sup>27</sup> Staff Comment at 2 (Aug. 6, 2015).

<sup>28</sup> *In the Matter of the Commission's Review of Ohio Power Company's Distribution Investment Rider Plan*, Case No. 12-3129-EL-UNC, Order at 13 (May 29, 2013).

<sup>29</sup> *Id.* (emphasis added).

During 2014, the Company substantially increased the quantitative impact of the DIR's proactive/reliability programs as compared with that achieved in 2013. Staff believes this improved performance shows that the Company is focusing DIR spending on maintaining and improving reliability for its customers.”<sup>30</sup>

When 2013 outage data is compared with 2014 outage data, there is actually an increase of 1,581 more outage events as shown in Table 3.

**Table 3: Comparison of Outage Events 2013 – 2014**

<b>Cause of Outage</b>	<b>2013<sup>31</sup></b>	<b>2014<sup>32</sup></b>
Accidental Ground	276	247
Animal/ Bird	4,107	4,114
Blast/Explosion/Fire	1	Not Addressed
Contamination/ Flashover	41	19
Customer Equipment	101	85
Distribution Source	26	34
Equipment/ Hardware Failure	8,466	9,230
Fire/ Police	90	113
Flooding/ Slide/ High Winds/ Ice/ Sleet/ Snow	232	221
Lightning	1,179	1,180
Object on Line	100	71
Operations Incident	50	61
Other/ Other Utility	270	186
Overload	198	234
Scheduled/ Planned Outage	13,652	14,295
Tree/ Vegetation Removal	188	188
Tree's Inside ROW/ Tree's Outside ROW	4,844	4,568

<sup>30</sup> Staff Comments at 9 (Aug. 6, 2015).

<sup>31</sup> *In the Matter of the Annual Report of Ohio Power Company Pursuant to Rule 10 of the Electric Service and Safety Standards, Ohio Administrative Code 4901:1-10-10*, Case No. 14-517-EL-ESS, Report (March 31, 2014).

<sup>32</sup> *Id.*

Underground/ Construction/ Dig-in	219	246
Unbalance	2	2
Unknown/ Unknown by Weather	2,997	3,540
Vandalism	222	193
Vehicle Accident/ Auto Damage	1,007	1,022
Total	38,268	39,849
Increase/ (Decrease)		<b>1,581</b>

The Staff Report which reflect the 2014 reliability impact quantifications i) for proactive programs and ii) for reliability programs, respectively is based on data that was provided by the Company to Staff. Table 4 taken from the Staff Comments reflects the quantification of 2014 reliability impacts for proactive programs. These programs include a number of inspections, equipment replacement, equipment reinforcement, equipment rehabilitation, equipment upgrade sub-programs.

<b>Table 4</b> <b>Quantification of 2014 Reliability Impact for Proactive Programs</b>	
<b>Program Name</b>	<b>Avoided Outages *</b>
Distribution Circuit Asset Improvement	8,600
Cutout and Arrester Program	7,166
Distribution Asset Improvement Associated with Transmission Work	45
Station Breaker Replacement	30
Pole Replacement	4,320
Line Recloser Maintenance	634
Underground Residential Distribution Inspection	69
Network Rehabilitation	74
Station Regulator Replacements	15
Forestry – Emerald Ash Borer Mitigation	20,815
Pole Reinforcement	165
Underground Duct and Manhole Program	10
Station Rebuild/Rehabilitation	7
<b>Total</b>	<b>41,950</b>

\* Note that one outage represents up to 2,100 customer interruptions



Table 4 provides data for avoided outages by sub-program with a total of 41,950 outages for the total 2014 reliability impact. Table 4 notes that each outage represents up to 2,100 customer interruptions. The Company estimated these avoided outages by assuming that each system asset or unit of equipment worked on under each program would otherwise cause an outage.<sup>33</sup> The Company did not estimate or determine the number of customer-interruptions for each program or the total programs, other than to note that each outage could affect as many as 2,100 customers (or, presumably, as few as 1 customer).<sup>34</sup>

Table 5 in the Staff Comments addresses the quantification of 2014 reliability impacts for reliability programs. These programs also include a number of inspection, equipment replacement, and equipment upgrade programs.

<b>Table 5</b> <b>Quantification of 2014 Reliability Impact for Reliability Programs</b>		
<b>Program Name</b>	<b>Reduction in Outages *</b>	<b>Reduction in Customer Outage Minutes</b>
Animal Mitigation Station	5	N/A
Lightning Mitigation	62	N/A
Underground Cable Replacement	23	N/A
Overhead Circuit Inspection and Repair	726	N/A
Sectionalizing Program	N/A	31,200
<b>Total</b>	<b>816</b>	<b>31,200</b>
* Note that one outage represents up to 2,100 customer interruptions		

Table 5 provides avoided outage data for some of the DIR sub-programs and provides avoided customer outage minutes, but not avoided outages, for the

<sup>33</sup> Response to OCC INT-2-016 (a), Attachment D.

<sup>34</sup> *Id.*

sectionalization program. The reduction of 816 outages is said to be taken from actual operating data, before and after the reliability work was performed. The total avoided outages between Table 4 and Table 5 is 42,766 avoided outages. But as shown in Table 3, the Utility outage events increased in 2014 over the level reported in 2013. There were a total of 39,849 outages in 2014, an increase of 1,581 outages over 2013. It is also notable that the total outages the Company says were avoided by the 2014 DIR was 42,766. This is greater than the total number of outages reported by the Utility in either 2013 or 2014 as shown in Table 3.

**E. An evidentiary hearing is required to adequately analyze and evaluate whether customers should continue to fund the 2014 DIR Rider.**

The PUCO should order an evidentiary hearing in order to better evaluate the 2014 DIR Program spending of over \$223 million in customers' money that the Utility collected from consumers. For the reasons explained above, the need for a hearing is even more evident now that the 2014 annual review and audit is complete. Therefore, the PUCO should order a hearing where AEP Ohio should be required to demonstrate the reasonableness of the DIR Program spending and also to quantify the service reliability improvements from the spending as was previously required by the PUCO.<sup>35</sup>

### **III. CONCLUSION**

OCC appreciates the opportunity to provide these Comments in order to assist the PUCO in its annual review of AEP-Ohio's customer-funded DIR. The PUCO's adoption of the recommendations proposed by OCC -- including the need for an evidentiary

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<sup>35</sup> *In the Matter of the Commission's Review of Ohio Power Company's Distribution Investment Rider Plan*, Case No. 12-3129-EL-UNC, Entry 3 (July 17, 2013).

hearing -- are necessary to protect AEP-Ohio's customers from paying additional unreasonable DIR charges for reliability has degraded.

Respectfully submitted,

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## **CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a true and correct copy of the foregoing Comments have been served upon the below-named persons via electronic service this 10<sup>th</sup> day of December 2015.

/s/ Jodi Bair

Jodi Bair

Assistant Consumers' Counsel

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**OHIO POWER COMPANY'S RESPONSES TO  
THE OHIO CONSUMERS' COUNSEL OF OHIO'S  
DISCOVERY REQUESTS  
PUCO 15-66-EL-RDR  
SECOND SET**

**INTERROGATORY**

INT-2-010 Referring to BT-DIR-1-024, Attachment 1, does the "Percent Repair Allowance" include the effect of repairs deductions pursuant to §Treas. Reg. 1.263(a)-3 and related safe harbor guidance under Revenue Procedure 2011-43?

**RESPONSE**

No.

**OHIO POWER COMPANY'S RESPONSES TO  
THE OHIO CONSUMERS' COUNSEL OF OHIO'S  
DISCOVERY REQUESTS  
PUCO 15-66-EL-RDR  
SECOND SET**

**INTERROGATORY**

INT-2-011     If the response to INT-2-010 is affirmative, please explain when the Company commenced recording such repairs deductions, and provide the deferred taxes recorded in each year since the Company began recording the relevant repairs deductions.

**RESPONSE**

Not applicable. See the Response to INT-2-010.

**OHIO POWER COMPANY'S RESPONSES TO  
THE OHIO CONSUMERS' COUNSEL OF OHIO'S  
DISCOVERY REQUESTS  
PUCO 15-66-EL-RDR  
SECOND SET**

**INTERROGATORY**

INT-2-012. If the Company has commenced taking repairs deductions pursuant to §Treas. Reg. 1.263(a)-3 and related safe harbor guidance under Revenue Procedure 2011-43, did the Company make a Section 481(a) adjustment at the time of implementation?

**RESPONSE**

Not applicable. See the Response to INT-2-010.

**OHIO POWER COMPANY'S RESPONSES TO  
THE OHIO CONSUMERS' COUNSEL OF OHIO'S  
DISCOVERY REQUESTS  
PUCO 15-66-EL-RDR  
SECOND SET**

**INTERROGATORY**

INT-2-013     If the response to INT-2-012 is affirmative, please provide the Section 481(a) adjustment made at that time.

**RESPONSE**

Not applicable. See the Response to INT-2-010.



OHIO POWER COMPANY'S RESPONSES TO  
BAKER TILLY'S DISCOVERY REQUESTS  
PUCO CASE NO. 15-66-EL-RDR  
FIRST SET

**INTERROGATORY**

BT-INT-1-011            Show in detail how the Company developed the carrying charge rate applicable to Rider DIR for 2014. Include supporting Excel files showing the detail of carrying cost development.

**RESPONSE**

The original DIR Carrying Charge rate of 20.59% was proposed and approved as Company Exhibit WAA-5 in Case No. 11-346-EL-SSO. Please see LA-DIR-1-42 Attachment 1 for the Carrying Charge rate backup. However, please note that the total DIR calculation proposed in Exhibit WAA-5 was modified by the PUCO prior to approval based on the Company proposing a modification on September 30, 2013, in Case No. 12-2627-EL-RDR, which changed the application of the ADIT adjustment. The PUCO approved the modification on November 13, 2013. Both the Company's September 30 proposal and the subsequent PUCO order are shown in LA-DIR-1-42 Attachment 2. Finally, the stipulation approved in Case No. 13-419-EL-SSO modified the calculation as shown in BT-DIR-1-011 Attachment 3.

Barcy F. McNeal  
December 19, 2014  
Page 1 of 2

December 19, 2014

Barcy F. McNeal  
Docketing Division Chief  
Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus Ohio 43215-3793

*Re: In the Matter of the Distribution Investment Rider for  
Ohio Power Company, Case No. 14-1696-EL-RDR*

Dear Ms. McNeal:

**Steven T. Nourse**  
Senior Counsel –  
Regulatory Services  
(614) 716-1608 (P)  
(614) 716-2014 (F)  
stnourse@aep.com

Through the Opinion and Order issued August 8, 2012 in Case No. 11-346-EL-SSO et al. (ESP II), the Commission modified and approved the Company's proposal to establish the Distribution Investment Rider (DIR). As part of the Commission's approval of the DIR, it ordered that quarterly updates be made and that audits would be implemented on an annual basis.

The Company submits its DIR adjustment based on investment data from the FERC Form 3Q for the 3rd quarter of 2014. Included in the adjustment is the over/under recovery for September 2014 plant actual balances.

Through its August 8 ESP II Order, the Commission approved the Company's proposal that for any year the DIR revenue is less than the annual cap allowance, the difference shall be applied to increase the cap for the subsequent period. The Company is including calculations on the Over/Under schedule that increase the 2014 cap by the difference between the 2012 and 2013 DIR revenue and the approved \$86,000,000 cap, prorated to represent the partial year and the \$104,000,000 2013 cap.

On November 13, 2013, the Commission approved the Company's proposal to include the Deferred Asset Recovery Rider (DARR) under-recovery true-up in the DIR rates effective Cycle 1 December 2013. In this DIR filing, included in the true-up of the DIR revenue collected in December 2013, the Company has adjusted the DIR Over/Under calculation to exclude the revenue attributable to the DARR under-recovery revenue requirement.

Through its order on November 28, 2012, the Commission clarified that future DIR filings should be automatically approved 60 days after the application is filed, with the new rate to take effect on the proposed effective date, unless the 60-day period is suspended by the Commission. The Company is updating its DIR to be effective

on the first billing cycle of March, 2015 unless otherwise ordered by the Commission.

Regards,

/s/ Steven T. Nourse

Steven T. Nourse  
Senior Attorney  
American Electric Power Service  
Corporation  
1 Riverside Plaza, 29<sup>th</sup> Floor  
Columbus, Ohio 43215  
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**DISTRIBUTION UTILITY PLANT ADFIT**  
**ACTUAL BALANCES**  
**Account 2821001**

	D Case Filing Balance @ 8/31/2010	Actual Book Balance @ 12/31/2011	Actual Book Balance @ 3/31/2012	Actual Book Balance @ 6/30/2012	Actual Book Balance @ 9/30/2012	Actual Book Balance @ 12/31/2012	Actual Book Balance @ 3/31/2013	Actual Book Balance @ 6/30/2013	Actual Book Balance @ 9/30/2013	Actual Book Balance @ 12/31/2013	Actual Book Balance @ 3/31/2014	Actual Book Balance @ 6/30/2014	Actual Book Balance @ 9/30/2014
<b>DISTRIBUTION</b>													
ADFIT - A/C 282 (Utility Property)	(328,328,000)	(420,358,000)	(431,916,000)	(443,753,831)	(456,558,838)	(477,005,603)	(488,236,564)	(500,335,903)	(512,092,973)	(527,003,174)	(529,247,539)	(532,969,511)	(536,568,025)

## AEP Ohio Proposed Distribution Investment Rider September 2014

Line		AEP Ohio
1	Distribution Plant as of 8/31/2010	\$ 3,345,925,000
2	Accumulated Depreciation as of 8/31/2010	\$ 1,253,173,000
3=1-2	Net Distribution Plant	\$ 2,092,752,000
4		
5	September 2014 Distribution Plant	\$ 3,991,453,253
6	Accumulated Depreciation September 2014	\$ 1,428,080,513
7=5-6	Net Distribution Plant	\$ 2,563,372,740
8		
9=7-3	Change in Distribution Net Plant	\$ 470,620,740
10		
11	Remove Plant Held for Future Use	\$ 18,085
12		
13	gridSMART Net Plant Adjustment (Recovered through GS Rider)	\$ 20,215,097
14		
15	Incremental Veg Mgmt net Plant Adjustment (Recovered through Rider)	\$ 29,406,854
16		
17=9-11-13-15	Adjusted Change in Distribution Plant	\$ 420,980,704
18		
19	Carrying Charge Rate	20.56%
20		
21=17*19	Initial Rider Revenue	\$ 86,553,633
22		
23	Revenue Offset Provided in Distribution Stipulation	\$ 62,344,000
24		
25	Incremental ADIT Offset	\$ 208,240,025
26		
27	Return Component on Plant	10.96%
28		
29=25*27	Remove ADIT Benefit	\$ (22,823,107)
30		
31=21+23+29	Revised Rider Revenue	\$ 126,074,526
32		
33	2014 Rider Revenue Cap	\$ 147,498,459
34		
35	2014 Rider Revenue (lesser of lines 31 & 33 )	\$ 126,074,526
36		
37	(Over)/Under (Based on October 2014 actuals)	\$ 17,576,113
38		
39	2014 Fully Adjusted Revenue Requirement	\$ 143,650,639
40		
41	Annual Base Distribution Revenue (12 Months Ending September 2014)	\$ 637,265,369
42		
43=(39/41)	AEP Ohio Percentage of Base Distribution Revenue	<u>22.54173%</u>

AEP Ohio Net Book Value September 2014					
gl account	utility account	month	book_cost	allocated_reserve	net_book_value
1060001 Completd Constr not Classif	36500 - Overhead Conductors, Device	09/2014	39993557.1	808742.02	39184815.08
1060001 Completd Constr not Classif	36800 - Line Transformers	09/2014	6558577.9	189649.45	6368928.45
1060001 Completd Constr not Classif	36700 - Undergrnd Conductors, Device	09/2014	22401799.13	374571.4	22027227.73
1010001 Plant In Service	37000 - Meters	09/2014	143797673.5	4345070.96	139452602.6
1010001 Plant In Service	36600 - Underground Conduit	09/2014	185188024.2	49225660.25	135962364
1060001 Completd Constr not Classif	36100 - Structures and Improvements	09/2014	51686.72	745.76	50940.96
1060001 Completd Constr not Classif	36200 - Station Equipment	09/2014	27693954.18	773912.09	26920042.09
1010001 Plant In Service	36800 - Line Transformers	09/2014	702057716.7	274749064.8	427308652
1010001 Plant In Service	37300 - Street Lghtng & Signal Sys	09/2014	38223473.37	17832834.07	20390639.3
1010001 Plant In Service	37200 - Leased Prop Cust Premises	09/2014	103793	74027.87	29765.13
1060001 Completd Constr not Classif	36400 - Poles, Towers and Fixtures	09/2014	14969538.98	346205.48	14623333.5
1060001 Completd Constr not Classif	36900 - Services	09/2014	1329106.22	26994.63	1302111.59
1060001 Completd Constr not Classif	37100 - Installs Customer Premises	09/2014	231126.19	8917.61	222208.58
1060001 Completd Constr not Classif	37000 - Meters	09/2014	30505.99	220.38	30285.61
1060001 Completd Constr not Classif	36000 - Land	09/2014	0	0	0
1060001 Completd Constr not Classif	36300 - Storage Battery Equipment	09/2014	0	0	0
1010001 Plant In Service	37016 - AMI Meters	09/2014	18521762.91	7392414.4	11129348.51
1010001 Plant In Service	36700 - Undergrnd Conductors, Device	09/2014	533794936.5	220052342.3	313742594.2
1010001 Plant In Service	36400 - Poles, Towers and Fixtures	09/2014	629896049.6	357859469.5	272036580.1
1010001 Plant In Service	36200 - Station Equipment	09/2014	544268347.3	170274026.5	373994320.8
1010001 Plant In Service	36000 - Land	09/2014	17087189.93	0	17087189.93
1060001 Completd Constr not Classif	37300 - Street Lghtng & Signal Sys	09/2014	312292.72	9033.82	303258.9
1010001 Plant In Service	36500 - Overhead Conductors, Device	09/2014	617090487	157382253.9	459708233.1
1010001 Plant In Service	36900 - Services	09/2014	311803317.3	127662425.8	184140891.5
1010001 Plant In Service	36010 - Land Rights	09/2014	38673931.94	0	38673931.94
1060001 Completd Constr not Classif	36600 - Underground Conduit	09/2014	16810764.03	457944.61	16352819.42
1010001 Plant In Service	37100 - Installs Customer Premises	09/2014	53813163.11	38675618.19	15137544.92
1010001 Plant In Service	36300 - Storage Battery Equipment	09/2014	5069926.03	2172428.24	2897497.79
1010001 Plant In Service	36100 - Structures and Improvements	09/2014	20394762.31	9918648.13	10476114.18
1060001 Completd Constr not Classif	36010 - Land Rights	09/2014	1285788.63	0	1285788.63
1060001 Completd Constr not Classif	37016 - AMI Meters	09/2014	0	0	0
			3,991,453,252.59	1,440,613,222.08	2,550,840,030.51
	RWIP			(12,532,709.04)	
			3,991,453,252.59	1,428,080,513.04	2,563,372,739.55

## Net Book Value AEP Ohio gridSMART Assets September 2014

company	utility_account	cc_rate_codes	month	book_cost	allocated_reserve	net_book_value
Ohio Power - Distr	36200 - Station Equipment	gridSMART	09/2014	4728168.83	418269.1	4309899.73
Ohio Power - Distr	36400 - Poles, Towers and Fixtures	gridSMART	09/2014	461328.95	55791.49	405537.46
Ohio Power - Distr	36500 - Overhead Conductors, Device	gridSMART	09/2014	9965349.25	813743.83	9151605.42
Ohio Power - Distr	36600 - Underground Conduit	gridSMART	09/2014	1707.38	94.27	1613.11
Ohio Power - Distr	36700 - Undergrnd Conductors, Device	gridSMART	09/2014	16537.92	830.2	15707.72
Ohio Power - Distr	36800 - Line Transformers	gridSMART	09/2014	1105084.58	128455.8	976628.78
Ohio Power - Distr	36900 - Services	gridSMART	09/2014	97397.65	8764.01	88633.64
Ohio Power - Distr	37000 - Meters	gridSMART	09/2014	0	0	0
Ohio Power - Distr	37016 - AMI Meters	gridSMART	09/2014	9782087.72	4602147.12	5179940.6
Ohio Power - Distr	37100 - Installs Customer Premises	gridSMART	09/2014	95614.87	12394.54	83220.33
Ohio Power - Distr	37300 - Street Lghtng & Signal Sys	gridSMART	09/2014	2727.75	418.01	2309.74
				\$ 26,256,004.90	\$ 6,040,908.37	\$ 20,215,096.53

Cumulative Incremental Capital	\$	32,775,912.00
Remove Depreciation	\$	(2,367,058.45)



DIR Over/Under Calculation		
	Revenue Requirement	1/12 Revenue Requirement
Aug-12	\$ 67,630,393.91	\$ 5,635,866.16
Sep-12	\$ 69,670,536.32	\$ 5,805,879.69
Oct-12	\$ 71,354,438.06	\$ 5,946,203.17
Nov-12	\$ 69,440,000.77	\$ 5,786,666.73
Dec-12	\$ 71,478,392.55	\$ 5,956,532.71
Jan-13	\$ 71,918,112.27	\$ 5,993,176.02
Feb-13	\$ 71,708,851.72	\$ 5,975,737.64
Mar-13	\$ 72,298,648.39	\$ 6,024,887.37
Apr-13	\$ 72,894,056.23	\$ 6,074,504.89
May-13	\$ 74,390,444.89	\$ 6,199,203.74
Jun-13	\$ 91,483,002.49	\$ 7,623,583.54
Jul-13	\$ 93,180,148.99	\$ 7,765,012.42
Aug-13	\$ 95,075,456.80	\$ 7,922,954.73
Sep-13	\$ 96,174,053.73	\$ 8,014,504.48
Oct-13	\$ 99,216,687.73	\$ 8,268,057.31
Nov-13	\$ 102,191,956.74	\$ 8,515,996.40
Dec-13	\$ 105,913,286.21	\$ 8,826,107.18
Jan-14	\$ 107,180,769.43	\$ 8,925,064.12
Feb-14	\$ 107,910,709.53	\$ 8,992,559.13
Mar-14	\$ 110,376,371.12	\$ 9,198,030.93
Apr-14	\$ 112,444,013.71	\$ 9,370,334.48
May-14	\$ 117,641,732.84	\$ 9,803,477.74
Jun-14	\$ 119,485,398.67	\$ 9,957,116.56
Jul-14	\$ 122,157,951.77	\$ 10,179,829.31
Aug-14	\$ 124,297,307.72	\$ 10,358,108.98
Sep-14	\$ 126,074,525.95	\$ 10,506,210.50
Oct-14		\$ -
Nov-14		\$ -
Dec-14		\$ -
		\$ 303,625,605.71
DIR Revenue through October 2014	\$	187,768,785.99
DARR True-Up Revenue	\$	1,719,293.00
(Over)/Under	\$	17,536,112.72

Calculation of DIR Cap 2012			
	2012 Cap*	2012 Actual	(Over)/Under
Aug-12	\$ 66,000,000	\$ 5,635,866	
Sep-12	\$ 7,166,667	\$ 5,805,880	
Oct-12	\$ 7,166,667	\$ 5,946,203	
Nov-12	\$ 7,166,667	\$ 5,786,667	
Dec-12	\$ 7,166,667	\$ 5,956,533	
	\$ 35,803,333	\$ 29,131,148	\$ 6,702,185
* Represents Partial Year			

Calculation of DIR Cap 2013			
2013 Cap	\$ 104,800,000		
2012 Under	\$ 6,702,185		
Total 2013	\$ 110,702,185		
	2013 Cap	2013 Actual	(Over)/Under
Jan-13	\$ 9,225,182	\$ 5,993,176	
Feb-13	\$ 9,225,182	\$ 5,975,738	
Mar-13	\$ 9,225,182	\$ 6,024,887	
Apr-13	\$ 9,225,182	\$ 6,074,505	
May-13	\$ 9,225,182	\$ 6,199,204	
Jun-13	\$ 9,225,182	\$ 7,623,584	
Jul-13	\$ 9,225,182	\$ 7,765,012	
Aug-13	\$ 9,225,182	\$ 7,922,955	
Sep-13	\$ 9,225,182	\$ 8,014,504	
Oct-13	\$ 9,225,182	\$ 8,268,057	
Nov-13	\$ 9,225,182	\$ 8,515,996	
Dec-13	\$ 9,225,182	\$ 8,826,107	
	\$ 110,702,185	\$ 87,283,726	\$ 23,498,459

Calculation of DIR Cap 2014			
2014 Cap	\$ 124,000,000		
2013 Under	\$ 23,498,459		
Total 2014	\$ 147,498,459		
	2014 Cap	2014 Actual	(Over)/Under
Jan-14	\$ 12,291,538	\$ 8,925,064	
Feb-14	\$ 12,291,538	\$ 8,992,559	
Mar-14	\$ 12,291,538	\$ 9,198,031	
Apr-14	\$ 12,291,538	\$ 9,370,334	
May-14	\$ 12,291,538	\$ 9,803,478	
Jun-14	\$ 12,291,538	\$ 9,957,117	
Jul-14	\$ 12,291,538	\$ 10,179,829	
Aug-14	\$ 12,291,538	\$ 10,358,109	
Sep-14	\$ 12,291,538	\$ 10,506,210	
Oct-14	\$ 12,291,538	\$ -	
Nov-14	\$ 12,291,538	\$ -	
Dec-14	\$ 12,291,538	\$ -	
	\$ 147,498,459	\$ 87,290,732	\$ 60,207,728

OHIO POWER COMPANY

~~9th-10th~~ Revised Sheet No. 489-1  
Cancels ~~8th-9th~~ Revised Sheet No. 489-1

P.U.C.O. NO. 20

DISTRIBUTION INVESTMENT RIDER

Effective Cycle 1 ~~December 2014~~ March 2015, all customer bills subject to the provisions of this Rider, including any bills rendered under special contract, shall be adjusted by the Distribution Investment Rider charge of ~~21.50800~~ 22.54173% of the customer's distribution charges under the Company's Schedules, excluding charges under any applicable Riders. This Rider shall be adjusted periodically to recover amounts authorized by the Commission.

Filed pursuant to order dated November 13, 2013 in Case No. 12-2627-EL-RDR

Issued: ~~September 26, 2014~~ December 19, 2014

Effective: Cycle 1 ~~December 2014~~ March 2015

Issued By  
Pablo Vegas, President  
AEP Ohio

OHIO POWER COMPANY

~~8<sup>th</sup>-9<sup>th</sup>~~ <sup>9<sup>th</sup>-10<sup>th</sup></sup> Revised Sheet No. 489-1D  
Cancels ~~8<sup>th</sup>-9<sup>th</sup>~~ Revised Sheet No. 489-1D

P.U.C.O. NO. 20

**OAD - DISTRIBUTION INVESTMENT RIDER**  
**(Open Access Distribution- Distribution Investment Rider)**

Effective Cycle 1 ~~December 2014~~ March 2015, all customer bills subject to the provisions of this Rider, including any bills rendered under special contract, shall be adjusted by the Distribution Investment Rider charge of ~~21.5080022~~ 22.54173% of the customer's distribution charges under the Company's Schedules, excluding charges under any applicable Riders. This Rider shall be adjusted periodically to recover amounts authorized by the Commission.

Filed pursuant to order dated November 13, 2013 in Case No. 12-2627-EL-RDR

Issued: ~~September 26, 2014~~ December 19, 2014

Effective: Cycle 1 ~~December 2014~~ March 2015

Issued By  
Pablo Vegas, President  
AEP Ohio

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

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**12/19/2014 1:55:33 PM**

**in**

**Case No(s). 14-1696-EL-RDR**

**Summary: Tariff -Tariff Update electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company**

**OHIO POWER COMPANY'S RESPONSES TO  
THE OHIO CONSUMERS' COUNSEL OF OHIO'S  
DISCOVERY REQUESTS  
PUCO 15-66-EL-RDR  
THIRD SET**

**INTERROGATORY**

INT-3-055      Please provide any changes in definitions of retirement units and/or minor units of property with regard to distribution plant since 2008. The response should identify any changes to accounting policies affecting the accounting for expenditures as plant costs or expenses.

**RESPONSE**

The Company objects to the extent the request seeks information which is outside the scope of the case and is neither relevant nor reasonably calculated to lead to the discovery of admissible evidence. Without waving the foregoing objection, the Company states that during 2014 there were no changes in definitions of retirement units or minor units of property with regard to distribution plant. However, two new retirement units were established for distribution plant during 2014. These retirement units relate to equipment which either did not previously exist or replaced legacy equipment which was capitalized when installed. In 2014 the time reporting guidelines for safety meetings were changed to allocating a percentage of an employee's safety meeting time to capital based on the capital/O&M split of the employee's direct labor to reflect that safety meetings are related to work performed by the employees for both capital and O&M projects.

**OHIO POWER COMPANY'S RESPONSES TO  
THE OHIO CONSUMERS' COUNSEL OF OHIO'S  
DISCOVERY REQUESTS  
PUCO 15-66-EL-RDR  
SECOND SET**

**INTERROGATORIES**

INT-2-016 Referring to Table 4 on page 7 of the PUCO Staff Comments filed in this docket on August 6, 2015, concerning the DIR, please provide the following information:

- a. Please describe how the Company determined the number of avoided outages for each program listed in the table.
- b. Please provide the avoided customer interruptions for each program listed in the table.
- c. Please describe how the Company determined customer interruptions for each program listed in the table.
- d. Please provide the avoided customer interruption minutes for each program listed in the table.
- e. Please describe how the Company determined customer interruption minutes for each program listed in the table.

**RESPONSE**

- a. The Company quantified avoided outages as the number of assets or units associated with the spending for each program.
- b. This data is shown in Table 4 on page 7 of the PUCO Staff comments filed on August 6, 2015, in Case No. 15-66-EL-RDR.
- c. The table lists the avoided outages. One outage represents up to 2,100 customer interruptions, which is approximately equal to the maximum number of customers per feeder circuit.
- d. The Company has not performed that calculation.
- e. Not applicable; see the response to part (d).

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**12/10/2015 3:51:44 PM**

**in**

**Case No(s). 15-0066-EL-RDR**

Summary: Comments Comments by the Office of the Ohio Consumers' Counsel electronically filed by Ms. Deb J. Bingham on behalf of Bair, Jodi Ms.