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January 21, 2016

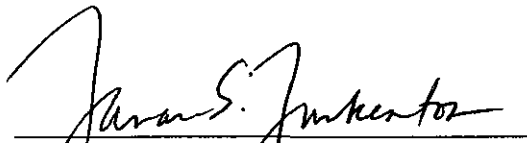
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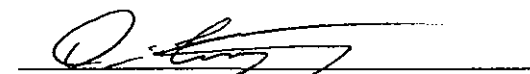
Docketing Division  
Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus OH 43215

RE: *In the Matter of the Applications of Ohio Power Company to Adjust its gridSMART Rider for 2014 and 2015 Grid Modernization Costs, Case No. 15-240-EL-RDR and Case No. 15-1513-EL-RDR*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations regarding the applications filed by Ohio Power Company to adjust its gridSMART Rider, in Case No. 15-240-EL-RDR and Case No. 15-1513-EL-RDR.

  
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Tamara S. Turkenton  
Chief, Regulatory Services Division  
Public Utilities Commission of Ohio

  
\_\_\_\_\_  
David Lipthrott  
Chief, Research and Policy Division  
Public Utilities Commission of Ohio

Enclosure  
Cc: Parties of Record

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**Ohio Power Company  
Case No. 15-240-EL-RDR  
Case No. 15-1513-EL-RDR**

**SUMMARY**

On February 2, 2015, Ohio Power Company (Ohio Power, Company) filed an application in Case No. 15-240-EL-RDR for approval to update its gridSMART Rider (gridSMART). This application was to recover 2014 Operation and Maintenance (O&M) and capital-related expenses incurred for the Company's investment in gridSMART technology. The requested revenue requirement was approximately \$25.7 million, which included O&M expenses, carrying charges on capital forecasted carrying charges for the remainder of 2015, and the under-recovery from past years. The charges included a capital to O&M expense adjustment accrual in the amount of approximately \$12.3 million, for which the reversal and actual charges occurred in February 2015.

In the Company's last ESP, the Commission stated, "The Commission clarifies and directs that within 90 days after the expiration of this ESP2, AEP-Ohio shall make a filing with the Commission for review and reconciliation of the final year of the Phase I gridSMART rider<sup>1</sup>." Furthermore, the Commission ordered that the Company's capital investments from Phase I will be rolled into the Company's Distribution Investment Rider and future capital investments and O&M expenses will be captured in the Phase II gridSMART rider<sup>2</sup>.

Upon completion of its Phase I of gridSMART deployment, the Company filed an application in Case No. 15-1513-EL-RDR on August 8, 2015 to recover its investment in gridSMART for the months of January 2015 through May 2015 for the amount of approximately \$21.4 million, which included O&M expenses, carrying charges on capital and under-recovery from previous years. However, no O&M expense forecast was included in the filing.

During the course of the audit, Staff reviewed the Company's actual revenues through the end of calendar year 2015. This review covers Staff's audit of both riders and the final Phase I calculations.

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<sup>1</sup> Case 11-346-EL-SSO In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Entry on Rehearing, January 30, 2013, at 53.

<sup>2</sup> Case 11-2385-EL-SSO In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan, Opinion and Order, February 25, 2015, at 52.

## **STAFF REVIEW AND RECOMMENDATIONS**

In its review, Staff examined the as-filed schedules for consistency with the Commission's Opinion and Orders in previous gridSMART cases to ensure proper accounting and regulatory treatment was applied. The audit consisted of a review of the financial statements for completeness, occurrence, presentation, valuation, allocation and accuracy. Staff conducted this audit through a combination of document review, interviews, and interrogatories.

During the course of review, Staff noted that the Company had been including in its capital carrying charges a component for Administrative and General (A&G) Expenses and also including A&G as part of its O&M expenses, resulting in double-recovery. The Company agreed with this conclusion and filed amended schedules on October 28, 2015, which reduced its requested revenue requirement to approximately \$19 million from the \$21.4 million included in the Case No. 15-1513-EL-RDR annual update filing.

Staff has completed its review of the filings and finds that the Company has appropriately included in its gridSMART rider only those costs that are incurred as a result of serving its retail customers in Ohio, with the exception of the following recommended adjustments totaling \$707,845 (from both cases).

### **CASE 15-240-EL-RDR**

#### **AEP Service Center Charges**

The Company included charges from the AEP Service Center totaling \$375,052 that were billed to gridSMART projects. Staff concludes that these charges are part of the base rates that customers are paying and if they are included in gridSMART charges, it would amount to double-recovery. Therefore, Staff recommends reducing the rider by the \$375,052.

#### **Marketing Charges**

The Company included charges for several invoices from Meijer, the Building Industry Association and Event Marketing Strategies for several invoices totaling \$202,025 that were for charges more related to marketing, including for shirts for employees. Staff recommends a reduction for these charges of \$202,025.

#### **Meals/Miscellaneous Charges**

The revenue requirement included charges of \$2,060 for meals and other miscellaneous charges that are not appropriate for recovery. These charges appeared to be for numerous group lunches and food and refreshments for meetings for which the cost should not be borne by customers. For example, meetings that could have occurred in the afternoon appeared to occur during lunch. Charges also included a car wash. Therefore Staff recommends a reduction for this amount totaling \$2,060.

## **CASE 15-1513-EL-RDR**

### **AEP Service Center Charges**

The Company included charges from the AEP Service Center totaling \$102,347 that were billed to gridSMART projects. Staff concludes that these charges are part of the base rates that customers are paying and if they are included in gridSMART charges, it would amount to double-recovery. Therefore, Staff recommend reducing the rider by the \$102,347.

### **Marketing Charges**

The Company included charges from Event Marketing Services for two invoices totaling \$26,151 that were for charges more related to marketing. Staff recommends a reduction for these charges of \$26,151.

### **Meals**

The revenue requirement included credit card charges of \$210 for meals that should not have been part of the rider. Included in this charge was meals for retirees; therefore Staff recommends a reduction for this amount totaling \$210.

## **CONCLUSION**

The Staff has completed its review of the filings and finds that the Applicant has appropriately included in its gridSMART rider only those costs, with the exceptions noted, that were incurred as a result of serving its retail customers in Ohio and recommends that the Applications, as amended, be approved and rates become effective on a bills rendered basis beginning April, 2016. The effect of Staff's recommended adjustments would result in rates of \$0.15 per month for residential customers and \$0.62 per month for non-residential customers.

The chart below shows the proposed monthly rate (including Staff adjustments) compared to the rate currently in effect:

Residential Current Rate	Residential Proposed Rate	Change
\$1.01	\$0.15	(\$0.86)
Non- Residential Current Rate	Non- Residential Proposed Rate	Change
\$4.22	\$0.62	(\$3.60)