

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Applications)	
of Ohio Power Company)	Case Nos. 15-240-EL-RDR
to Adjust its gridSMART [®] Rider for)	15-1513-EL-RDR
2014 and 2015 Grid Modernization)	
Costs)	

REPLY COMMENTS OF OHIO POWER COMPANY

On February 2, 2015 Ohio Power Company's ("AEP Ohio" or the "Company") filed its application to update its gridSMART[®] rider rates in Case No. 15-240-EL-RDR reflecting actual project spending and recovery from 2014 and forecast O&M spending for 2015.

On February 25, 2015 the Commission issued its Opinion and Order in the *ESP III* Cases (Case Nos. 13-2385-EL-SSO et al.) and granted (at 50-52) the Company's request to continue the gridSMART[®] rider with certain modifications. Consistent with the Commission's directive in the *ESP II* proceeding (Case No. 11-346-EL-SSO January 30, 2013 Entry on Rehearing at 53.), the Company, within 90 days after the expiration of *ESP II*, was required to file an application for review and reconciliation of the final year of the gridSMART[®] Phase 1 rider. Additionally, in the *ESP III* Opinion and Order the Commission approved AEP Ohio's request to transfer the approved capital cost balance into the DIR, and to also transfer any unrecovered O&M balance into the gridSMART[®] Phase 2 rider, after the Commission has reviewed and reconciled gridSMART[®] Phase 1 costs.

On August 8, 2015 the Company filed its Final gridSMART® Phase 1 rider update application in Case No. 15-1513-EL-RDR, reflecting actual project spending and recovery from January through May 2015 and capital carrying costs from June through December 2015. On January 21, 2016, the Staff filed comments on the Company's Applications. AEP Ohio hereby responds to the comments filed by the Staff.

RESPONSE TO STAFF'S RECOMMENDATIONS

Through collaboration with the Staff as reflected in the Company's October 28, 2015 filing in Case No. 15-1513-EL-RDR, the Company agreed to correct an inadvertent error and remove a component from Administrative and General (A&G) capital carrying charges as A&G is already part of the Company's O&M expenses. The resulting adjustment reflects a reduction to approximately \$19 million from the revenue requirement of \$21.4 million in the Company's gridSMART® rider application in Case No. 15-1513-EL-RDR.

Case No. 15-240-EL-RDR

AEP Service Center Charges

The Staff recommended reducing the rider by \$375,052 for AEP's Service Center Charges (SCC) concluding 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". AEP Ohio strongly disagrees with the Staff's recommendation to eliminate the SCC. After a review of the Staff's recommended SCC adjustment it is apparent that the Staff has recommended an indiscriminate elimination of all SCC without reviewing

the underlying data. Additionally, all SCC that the Company included are incremental and do not amount to double-recovery as claimed by the Staff.

There are two major errors in the Staff's recommendation. First, the Company has already removed \$150,944 of the Staff's recommended \$375,052 reduction in SCC from the O&M component of the revenue requirement before filing this case. Therefore, the Company is only requesting recovery of the balance of \$224,108 in SCC charges. (See Case No. 15-240-EL-RDR Staff Data Requests 1-001, and 4-001 "Staff DR4 Qa OM Costs" attachment). The \$150,944 that was removed represents AEP Ohio's SCC for Internal Labor which is part of the Company's base rates and has been traditionally removed from the Company's past gridSMART[®] filings. Second, the \$224,108 of SCC that remains in the revenue requirement represents incremental gridSMART[®] charges primarily related to server leases specifically supporting the gridSMART[®] program. Support for a sample of these incremental SCC expenses was provided in the original and supplemental replies to Staff Data Request 15-001 as part of the Staff's audit. As part of these replies, the Company provided support for SCC audit samples requested by the Staff that related to computer equipment from several vendors that support gridSMART[®] operations. The support included copies of leases, purchase orders and requisitions for computer equipment. Examples of vendor items supported by the Company's replies included, servers and equipment that provide support for the Mobile Alerts program for notifications on the Company's Commission approved gridSMART critical peak pricing program for day ahead notices when a critical peak event is called as required by the tariff, as well as, equipment that provides IT and network support for a complex combination of several internal and external communication systems and data sources for

the gridSMART project. There were no charges for these items prior to the test year in our last Distribution rate case (Case Nos. 11-351-EL-AIR and 11-352- EL-AIR).

As such, no double recovery has occurred as these are incremental expenses. An additional part of the sample provided in reply to Staff Data Request 15-001 included an incremental SCC charge for a required 2013 gridSMART[®] Compliance Audit. All ARRA funded projects were required to have an annual compliance audit conducted by an external auditor. These audits were to ensure the Company had followed all the DOE rules and that all the charges to the project were ‘reasonable and appropriate.’ The Company contracted with an auditor in 2011 for the first audit and continued to use them every year thereafter. The Staff was made aware of this in gridSMART[®] Case No. 15-1513-EL-RDR in reply to Staff Data Request 9-001. These charges were directly related to gridSMART, incremental to the test year, and appropriately included for recovery in the gridSMART rider.

As stated above, Staff has made an indiscriminate elimination of all SCC without reviewing the underlying data and allowing recovery of the SCC that the Company included does not amount to double-recovery as claimed by the Staff because the charges are incremental and not part of base rates. Therefore, the Commission should reject the Staff’s recommendation on this issue.

Marketing Charges

The Staff recommended a reduction of \$202,025 for invoices for several vendors stating these “were for charges more related to marketing.” The Commission should reject the Staff’s conclusion on this issue based on the following:

In its decision in approving costs for the Company's Mobile Interest Center, the Commission stated as follows:

The Commission believes that customer education is vital to the success of the gridSMART Phase I project. Through the Mobile Interest Center, CSP can make contact with the customer and demonstrate the technology available to monitor energy usage and permit the customer the option to better control energy usage and electric bills. In addition to sending customers within the project area information about gridSMART by the usual means (mail, bill messages and making it available on the company's website), the Mobile Interest Center is a proactive means of demonstrating aspects of Phase I gridSMART to project customers, as well as other CSP customers, in preparation for gridSMART deployment throughout its service territory. Further, the Mobile Interest Center is an interactive means of getting the information to customers, with the opportunity for customers to ask questions and enroll in the service options available. For these reasons, the Commission finds that the cost of the Mobile Interest Center is a key component of gridSMART and the costs are appropriately included in the gridSMART rider.

Case No. 10-164-EL-RDR, Finding and Order (August 11, 2010) at 7.

Fees paid to the two vendors for participation in the Parade of Homes and the Ohio State Fair provide the Company an opportunity for the venue and associated customer outreach and education. For example, the Ohio State fair venue consisted of a tent including displays with gridSMART[®] educational items and the Distribution Automation trailer (See gridSMART[®] Case No. 14-192-EL-RDR replies to Staff Data Request 10-001 Question 6 and 18-001) with technical displays that showcased the gridSMART[®] technologies including Distribution Automation Circuit Reconfiguration. In the reply to Staff Data Request 24-001, the Company provided additional information to Staff in order to clarify that the activities and customer outreach are solely associated with the gridSMART project, as a description on the original invoice provided to Staff in reply to Data Request 10 (attachment "Confidential Staff DR 10 APACC_Line 11_InvOSF14A") incorrectly stated part of charges were related to energy efficiency.

However, the Company has provided the staff with the appropriate backup to determine that the payment was strictly for the gridSMART® project. As the Commission stated above, “customer education is vital to the success of the gridSMART® Phase I project”. The Company’s participation in the Parade of Homes and Ohio State fair provides the means to display the Distribution Automation Trailer and other gridSMART® demonstration items and educate customers on the technology and benefits of the equipment.

This is no different than what the Commission approved in regard to the Mobile Interest Center in Case No. 10-164-EL-RDR. Additionally, the Staff recommend a reduction of the invoices for the purchase of inexpensive Polo shirts for AEP Ohio gridSMART® employees to wear as they served as representatives demonstrating gridSMART® technologies to customers at the Parade of Homes. These shirts not only provided our gridSMART® employees with a professional look but they also matched the shirts worn by the employees of the vendor that worked alongside of them and are a legitimate business expense. Therefore, for the reasons set forth above the Commission should reject the Staff’s recommended reduction of \$202,025 on this issue.

Meals/Miscellaneous Charges

During the audit the Staff requested several Company expense reports as back up for gridSMART® related charges. When the Company served the data requests, full expense reports were provided that not only included the gridSMART® related expenses in question but also included other expenses charged to Project / Work Order IDs that were not included for recovery in the gridSMART® project. Not realizing this, the Staff incorrectly eliminated several expenses totaling \$824 that were not charged to the project.

Therefore, the Company requests the Commission reduce the Staff's recommended reduction of from \$2,060 to \$1,236.

Case 15-1513-EL-RDR

AEP Service Center Charges

Consistent with their recommendation on AEP Service Center Charges above in Case No. 15-240-EL-RDR, the Staff recommended reducing the rider by \$102,347 of AEP's Service Center Charges (SCCs) concluding 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". AEP Ohio strongly disagrees with the Staff's recommendation to eliminate the SCCs. After a review of the Staff's adjustment it is again apparent that the Staff is recommending an indiscriminate elimination of all SCCs without reviewing the underlying data. Additionally, all SCCs that the Company included are incremental and do not amount to double-recovery as wrongly claimed by the Staff. There are major errors in the Staff's recommendation that are consistent with the errors made by the Staff in their recommendation concerning AEP SCCs above in Case No. 15-240-EL-RDR. For example, the Company has already removed \$26,366 of the Staff's recommended \$102,347 in SCCs from the O&M component of the revenue requirement before filing this case. Therefore, the Company is only requesting recovery of \$75,981 in SCCs. (See Case No. 15-1513-EL-RDR Staff Data Request 10-001)

The \$26,366 that was removed represents AEP Ohio's SCC for Internal Labor which is part of the Company's base rates and has been traditionally removed from the Company's past gridSMART[®] filings. The \$75,981 of SCC that remains in the revenue requirement represents incremental gridSMART[®] costs related to SCC. The incremental

SCC were provided to the Staff in the reply to Data Request 1-001 Attachment 1 and support for a Staff selected sample of the SCC expenses was provided in the replies to Staff Data Request 2-001 (see “Staff Data Request 2-001 Supplemental Samples Lines 24-28” attachment) and in both the original and supplemental replies to Staff DR 6-001. As part of these replies, the Company provided support for SCC audit samples requested by the Staff that included monthly incremental SCC charges related to computer equipment from two vendors that support gridSMART® operations. The first was for equipment to support the Mobile Alerts program notifications for the Company's Commission approved gridSMART critical peak pricing program for day ahead notices when a critical peak event is called as required by the tariff. The second was for equipment to support the Company's Commission approved gridSMART Real Time Pricing program tariff. There were no charges for these items prior to the test year in our last Distribution rate case (Case Nos. 11-351-EL-AIR and 113-352- EL-AIR). As such, no double recovery has occurred as these are incremental expenses. Another SCC charge was for an auditor’s billing for a required 2014 gridSMART® Compliance Audit was provided in reply Staff Data Request 2-001 (see Confidential Staff DR 2-001 Supplemental Samples Line 3 Inv 1212863 attachment). As stated in the reply to Staff Data Request 9-001, all ARRA-funded projects were required to have an annual compliance audit conducted by an external auditor. These audits were to ensure the Company had followed all the DOE rules and that all the charges to the project were ‘reasonable and appropriate’. The Company contracted with the auditor in 2011 to conduct the first audit and continued to use them every year thereafter. These charges

were directly related to gridSMART, incremental to the test year, and appropriately included for recovery in the gridSMART rider.

As stated above, Staff has made an indiscriminate elimination of all SCC without reviewing the underlying data and allowing the SCC that the Company included does not amount to double-recovery as claimed by the Staff because the charges are incremental and not part of base rates. Therefore, the Commission should clearly reject the Staff's conclusion on this issue.

Marketing Charges

The Staff recommended a reduction of \$26,151 for vendor charges stating they “were for charges more related to Marketing.” These charges were primarily for storage of the gridSMART® Mobile Unit and Distribution Automation Trailer. The charges for the purchase and customization of the Distribution Automation Trailer were included in gridSMART® Case No. 14-192-EL-RDR. (See the replies Staff Data Request 10-001 Question 6 and 18-001). Additionally, as noted in the Company's reply to Staff's recommendation to eliminate Marketing Charges in Case No. 15-240-EL-RDR above, in its August 11, 2010 Finding and Order in Case No. 10-164-EL-RDR the Commission found that costs associated with the Mobile Interest center are a key component of gridSMART® and the costs are appropriately included in the rider. Again, the benefits of the Event Marketing charges for the Distribution Automation trailer are no different than what the Commission approved in regard to the Mobile Interest Center. Therefore, the Commission should reject the Staff's conclusion on this issue.

Meals/Miscellaneous Charges

The Staff recommended a reduction of \$210 for credit card charges that they believe should not have been part of the rider. The Commission should reject the Staff's conclusion on this issue based on the fact that the following were prudent gridSMART® related business expenses:

- Refreshments for Dolan Training for \$40.37 were provided during a January 26, 2015 meeting that involved a discussion on the transfer of management services for gridSMART® in home displays to a new less expensive contractor.
- A Cross Training Lunch for \$70.09 was provided during a January 27, 2015 meeting for training associated with transferring gridSMART® related work from one employee to another.
- A business meal for \$96.06 was provided on February 13, 2015 during a meeting with selected AEP Retirees with AMI meter experience to discuss their availability for AMI Meter replacement, in order to find the most skilled resources at the lowest cost available for future AMI meter replacements.

Other Issues

The Staff has recommended a monthly rate that would spread the final gridSMART® phase 1 costs over a one year period. The gridSMART regulatory asset under recovery as of February 2016 is \$1.9 million and the current monthly rider collections are approximately \$2 million with carrying charges of about \$800,000. Because this is the final gridSMART® Phase 1 case, the company is requesting authorization to keep the current rates in place until the gridSMART® regulatory asset is

reduced to near zero and to expire and eliminate the rider once this occurs . This would significantly shorten the time that the rider stays in place. The month following the Commission approval in these two cases, the Company will stop applying the carrying charges to the gridSMART assets through the rider calculation, and begin to collect the return on the gridSMART assets through the DIR. The DIR revenue requirement will no longer be decreased by the Net Book Value (NBV) of the Phase I assets.

Respectfully submitted,

/s/ Steven T. Nourse

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing has been served upon the below-named counsel via electronic mail, this 19th day of April, 2016.

/s/ Steven T. Nourse

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Summary: Reply Comments electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company