Blue Ridge Consulting Services, Inc.

Docket No. 16-0021-EL-RDR

Compliance Audit of the 2015 Distribution Investment Rider (DIR) Ohio Power Company d/b/a AEP Ohio

Submitted on August 5, 2016

Prepared by
Blue Ridge Consulting Services, Inc.
114 Knightsridge Road
Travelers Rest, SC 29690
(864) 836-4497

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DISCLAIMER

The word *audit* is intended, as it is commonly understood in the utility regulatory environment, to mean a regulatory review, a field investigation, or a means of determining the appropriateness of a financial presentation for regulatory purposes. It is not intended in its precise accounting sense as an examination of booked numbers and related source documents for financial reporting purposes. Neither is the term *audit* in this case an analysis of financial statement presentation in accordance with the standards established by the American Institute of Certified Public Accountants. The reader should distinguish regulatory reviews such as those that Blue Ridge performs from financial audits performed by independent certified public accountants.

This document and the opinions, analyses, evaluations, and recommendations are for the sole use and benefit of the contracting parties. There are no intended third-party beneficiaries, and Blue Ridge shall have no liability whatsoever to third parties for any defect, deficiency, error, or omission in any statement contained in or in any way related to this document or the services provided.

This report was prepared based in part on information not within the control of the consultant, Blue Ridge Consulting Services, Inc. While it is believed that the information that has been provided is reliable, Blue Ridge does not guarantee the accuracy of the information relied upon.

ORGANIZATION OF BLUE RIDGE'S REPORT

This report is organized according to the following major sections:

- *Executive Summary*: This section provides a summary of Blue Ridge's observations, findings, conclusions, and recommendations that are presented in more detail in the body of the report.
- *Blue Ridge 2015 Recommendations*: This section contains a listing of recommendations resulting from the 2015 DIR audit.
- *Overview of Investigation*: This section provides the following: background; project purpose; project scope; audit standard; information reviewed; personnel interviewed, brief summary of the variance analyses, transactional testing, and other analyses.
- *Prior Compliance Audits Recommendations Status*: This section presents the current status of the Companies implementation of recommendations from prior DIR audits.
- *Findings and Recommendations*: This section documents Blue Ridge's analysis that led to our observations, findings, and recommendations regarding the components that comprise the DIR. In several instances, Blue Ridge used information obtained from the prior audits of the 2012, 2013, and 2014 DIRs in this report. The information used is labeled to show that it was obtained during the prior audits and is provided with the workpapers supporting this report.

The report also contains appendices.

EXECUTIVE SUMMARY

BACKGROUND

On August 8, 2012, the Public Utiliites Commission of Ohio (PUCO or "Commission") issued an opinion and order *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 Case No. 11-346-EL-SSO et al*. In that opinion and order, the Commission established a Distribution Investment Rider (DIR). Through the DIR, AEP-Ohio may recover property taxes, Commercial Activity Tax, and associated income taxes and earn a return on and of plant in service associated with distribution net investment regarding Federal Energy Regulatory Commission (FERC) Plant Accounts 360-374. The net capital additions to be included in the DIR reflect gross plant in-service after August 31, 2010, as adjusted for accumulated depreciation. Capital additions, recovered through other riders authorized by the Commission to recover distribution capital additions, will be identified and excluded from the DIR.

In accordance with the Opinion and Order in Case No. 11-346-EL-SSO et al., the Commission sought proposals to review the accounting accuracy, prudency, and compliance of Ohio Power Company with its PUCO-approved Rider DIR with regard to in-service net capital additions since the last DIR compliance audit. Blue Ridge Consulting Services, Inc. ("Blue Ridge") submitted a proposal and was selected to perform the work.

PURPOSE OF PROJECT

The project purpose as defined in the RFP requires a review of the accounting, accuracy, prudency, and compliance of Ohio Power Company with its Commission-approved DIR with regard to in-service net capital additions since the last DIR compliance audit. The review covers the DIR quarterly filings for 2015. Capital additions, recovered through other riders authorized by the Commission to recover delivery-related capital additions, will be identified and excluded from the DIR. The review will also include an identification, quantification, and explanation of any significant net plant increases within individual accounts.

PROJECT SCOPE

The project scope as defined in the RFP is to determine whether Ohio Power Company ("AEP-Ohio" or "Company") has implemented its PUCO-approved DIR in compliance with the Opinion and Orders issued in Case Nos. 11-346-EL-SSO and 13-2385-EL-SSO. The audit includes, but is not limited to, the following tasks:

- Review Case Nos. 11-346-EL-SSO and 13-2385-EL-SSO
- Read all applicable testimony and associated workpapers
- Review Plant-in-Service related provisions contained within the Orders in Case Nos. 11-352-EL-AIR and 11-351-EL-AIR
- Obtain and review all additions, retirements, transfers, and adjustments to current date value of plant in service that have occurred for the actual year ended December 31, 2015
- Verification with FERC Form 1 for year 2015
- Obtain and review all appropriate documentation relating to the Company's compliance with its PUCO-approved DIR
- Obtain and review all appropriate documentation related to compliance with the Commission's Finding and Orders in Case Nos. 14-255-EL-RDR and 15-66-EL-RDR
- Field verification of the used and usefulness of incremental plant in service
- Review all changes in capitalization policy and assess any impacts on the DIR and the impact on O&M expenses

- Assess the Company's utilization of tax changes and provisions and verification of their appropriate treatment within the DIR, including estimating foregone tax reduction opportunities and evaluating the impact on the DIR

FINDINGS AND RECOMMENDATIONS

OVERALL IMPACT OF FINDINGS ON DIR REVENUE REQUIREMENTS

Blue Ridge's review of the accounting, accuracy, prudency, and compliance of Ohio Power Company with its Commission-approved DIR found that several work orders within the sample reviewed by Blue Ridge included cost elements totaling $63,000[1] related to costs that are inappropriate for inclusion in the distribution rider. While the $63,000 observed by Blue Ridge would be immaterial to the Company's DIR, it is likely that these cost elements also appear within other work orders included within the overall work order population and are, therefore, being recovered through the DIR. Blue Ridge recommends that the Company review the cost detail for the total population of work orders included in the DIR and remove the costs of the following four identified cost elements from the DIR.

1. Cost Element 141: Incentive Accrual Dept. Level—used to record Distribution, Customer Operations and Regulatory Services Incentive Plan expense.
2. Cost Element 145: Stock-based compensation—used to record Performance Share Incentive expense.
3. Cost Element 154: Restricted Stock Incentives—used to record Restricted Stock Unit Expense.
4. Cost Element 155: Transmission Incentives—used to record Transmission Incentive Plant expense.

PROCESSES AND CONTROLS

From the documents reviewed, Blue Ridge was able to obtain an understanding of the Company's processes and controls that affect the DIR. Furthermore, we were satisfied with actions taken with regard to internal audits and SOX compliance testing. Blue Ridge concluded that AEP Ohio's controls were adequate and not unreasonable.

The Company is pursuing refunds for overpayment for services discovered during two vendor contract internal audits. Blue Ridge recommends, should the Company receive those refunds, the DIR of the year in which the refund is received should reflect the appropriate impact of the refund.

VARIANCE ANALYSIS

Based on Blue Ridge's review of variances in the Company account balances during the 2015 DIR year, no variances resulted in concerns for the proper calculation of DIR amounts.

REVENUE REQUIREMENTS

Overview of Methodology

In Case No. 11-346-EL-SSO et al., (*ESP 2 Case*) the Company requested a Distribution Investment Rider (DIR) that would allow carrying costs on incremental distribution plant to be recovered each year using a pre-tax weighted average cost of capital and an O&M component. The

[1] WP BR-INT-2-001 Attachment 8 (to Remove Certain Cost Elements from DIR).

DIR revenue requirement excluded recovery on plant included in prior base distribution rate cases and plant recovered in other riders.

The Commission approved the DIR (with modifications) as "an appropriate incentive to accelerate recovery of AEP Ohio's prudently incurred distribution investment costs." The Commission ordered that the DIR mechanism not include any gridSMART costs. The gridSMART projects are separate from the DIR and are recovered through the gridSMART rider. The DIR also excludes capital dollars spent for vegetation management that are recovered through the Enhanced Service Reliability Rider. Furthermore, the Commission ordered that the DIR mechanism be revised to account for accumulated deferred income tax.

Case No. 13-2385-EL-SSO extended the DIR through May 2018 and incorporated several modifications. The modifications included approval of rate caps for 2015 through May 2018, a revision to the property tax calculation, and modifications to adopt six recommendations by Staff.

Revisions to DIR Ordered in Case No. 13-2385-EL-SSO

With the extension of the DIR, the Commission ordered modifications to the DIR, including the adoption of six recommendations made by Staff, the adoption of OCC's recommendation regarding property taxes, and the inclusion of gridSMART Phase 1 capital costs within the DIR.

Staff recommended detailed account information for excluded riders, particularly gridSMART and the vegetation management included in the ESRR (Enhanced Service Reliability Rider), be provided in the DIR filings. While the Company stated it had implemented Staff's recommendations, because of timing differences, Blue Ridge recommends that the Company provide a reconciliation in future filings comparing the amount of plant recovered in ESRR and gridSMART riders with the amount shown excluded within the DIR.

Staff recommended that AEP Ohio provide the jurisdictional allocations and accrual rates for each account and subaccount that were approved in AEP's prior AIR case, subject to Staff's exception for gridSMART depreciation rates.

Staff recommended the Company should include in each DIR filing, for each account and subaccount, a full reconciliation between the functional ledger and FERC form filings as well as detailed workpapers showing the jurisdictional allocation, accrual rates and reserve balances of each account and subaccount. The Company has provided the required information.

Staff recommended the Company be directed to detail the DIR revenue collected by month and to date in its filings to demonstrate compliance with annual revenue caps. The Company did include a workpaper within the DIR filing comparing the monthly and to date DIR revenue with the Billed DIR.

Staff recommended any further changes the Company proposes to its capitalization policy should be highlighted and quantified in the DIR filing. No capitalization policy changes have been reported since the Company implemented this practice.

Staff recommended the filing of an updated depreciation study by November 2016. The Company expects to file the study as scheduled.

OCC recommended, and the Commission approved, a modification to the property tax calculation to adjust the depreciation reserve to eliminate the cumulative amortization of the excess depreciation reserve since rates in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR went into effect. The Company's application of the theoretical reserve offset prior to calculating property tax is not unreasonable.

Blue Ridge reviewed the planned methodology to effect the transfer of gridSMART Phase 1 capital assets to the DIR and found it not unreasonable.

Mathematical Accuracy

Blue Ridge validated the mathematical calculations in the Company's revenue requirement models for each quarter and found them not unreasonable.

Net Plant in Service

Blue Ridge's review of net plant in service included validation to FERC Form filings for gross plant and the reserve for depreciation.

Regarding transactional testing of sampled work orders, Blue Ridge performed a ten-step testing process to determine the integrity of the DIR in process and intent. Among its findings, Blue Ridge noted the following:

1. Blue Ridge reviewed the project approval documentation and found several instances where the documentation was incomplete for both blanket and specific work orders, therefore making the PRA (probabilistic risk assessment) process not complete.[2] Even though management uses a Lotus Notes® database approval process, the actual document was not signed nor was it indicated that the approval process was used. Therefore, we could not determine in certain instances if senior management had signed off on the project. Blue Ridge recommends that, if a Lotus Notes® database is going to be used by management to approve projects, a form be attached to the project documentation to support the approval, providing an audit trail.
2. All sample project work orders included justifications that were not unreasonable.
3. Because of lack of adequate response to requested data, Blue Ridge was unable to conclude whether the Company is managing project costs in a reasonable manner and if cost overruns are adequately documented and approved.
4. Blue Ridge recommends that the Company be required to provide the Commission information on the work orders in the sample selection that are greater than 15% over budget. That information should provide the detailed reason the work order was over budget. If a change order or estimate revision was initiated that increased the original estimate, the Company should provide that change documentation along with all necessary management approvals.
5. Four cost elements involved in DIR work orders should not, in Blue Ridge's opinion, be considered payroll or payroll-related costs and are not appropriate overhead cost that benefits the project(s). Blue Ridge recommends removing any such costs of these four cost elements from the DIR.
6. Regarding one work order of meter purchases, Blue Ridge recommends the Company demonstrate to the Commission that the purchase of meters from AEP affiliates represents the lowest cost alternative to the Company.
7. Blue Ridge recommends, in regard to work order 7900299 involving 4955 purchased meters for a total cost of $5,924,249, the Company provide to the Commission a comparison of the actual meter costs (without the capitalized labor or other installation costs) with other similar meter type costs, supporting the fact that this purchase was in line with other similar purchases. field inspections, a review of the Companies' workorder backlog, calculations of the Companies' overhead allocations, and the treatment of

[2] AEP Ohio response to Data Request 2.001 Attachment 2, and 4.010 and 4.012 Attachments.

insurance recoveries. Blue Ridge found that the net plant (prior to the exclusions discussed in the following section) is not unreasonable.

8. Some inactive work orders appear on the inactive work order report for an excessive period. Blue Ridge recommends the Company continue to monitor inactive work orders that appear on the report and strive to resolve outstanding issues within a reasonable time frame of six months.
9. Blue Ridge noted a few work orders that have been held open for greater than 90 days without explanation. Blue Ridge recommends that the Company adhere to its stated policy to not hold work orders open to collect additional charges past 90 days.

The five projects selected for field verification confirmed that the assets were installed and used and useful. Additionally, review of backlog and insurance recoveries revealed no unreasonable activity.

Exclusions From DIR

The Commission ordered that capital additions recovered through other Commission-authorized riders be identified and excluded from the DIR Rider. Blue Ridge reviewed each rider and determined that the gridSMART and Enhanced Service Reliability Riders are the only riders that include distribution plant that should be removed from the DIR to avoid double counting. In Case No. 13-2385-EL-SSO, the Company requested and the Commission approved the continuation of the ESRR in order to complete the transition to a cycle-based vegetation management program through 2018. With the extension, the Commission approved Staff's recommendation that the Company file the plant in service that is being recorded and recovered in the ESRR within the DIR filing. Similar to the ESRR, with the extension of the DIR in Case No. 13-2385-EL-SSO, the Commission approved Staff's recommendation that the Company file the plant in service that is being recorded and recovered in the gridSMART rider within the DIR filing.

Blue Ridge's review of the net plant in service found that dollars associated with the gridSMART and Enhanced Service Reliability Rider have been appropriately excluded from the DIR.

Accumulated Deferred Income Tax

The Commission ordered that the DIR mechanism account for accumulated deferred income tax (ADIT) offset. Blue Ridge found that the incremental ADIT was appropriately excluded from the change in Distribution Plant before applying the return component of the carrying charge.

Carrying Charge Rate

The carrying charge rate includes elements to allow the Company an opportunity to recover property taxes and commercial activity tax and to earn a return on (accounting for associated income taxes) plant in service associated with distribution net investment. The carrying charge rate is not unreasonable.

Revenue Offset

Blue Ridge found that the Company appropriately increased the DIR revenue requirement by the $62.344 million revenue credit included in the distribution case settlement in Case No. 11-351-EL-AIR.

Annual Cap and Over/Under Recovery

The recovery on the DIR is capped at certain levels each year. Blue Ridge found that the Company did not exceed the $145 million cap for 2015 when adjusted for the over/under recovery for previous years. Blue Ridge found that the Company's methodology for calculating the over or under billed for the DIR was not unreasonable.

Annual Base Distribution Revenue

Blue Ridge compared the screen shots of the query used to determine the base distribution revenues through December 31, 2015, to the amount included within the 4th Quarter DIR filing and found no exception.

BLUE RIDGE 2015 RECOMMENDATIONS

For the 2015 DIR assessment, Blue Ridge summarizes its recommendations as follows:

Rec-01. Blue Ridge recommends, should the Company receive the refunds being pursued as a result of the vendor contract audits' determination of overpaying vendors for services, the DIR of the year in which the refund is received should reflect the appropriate impact of the refund(s). (2015 DIR Report, p. 25)

Rec-02. Blue Ridge recommends the Company provide a reconciliation in future filings comparing the amount of plant recovered in ESRR and gridSMART riders with the amount shown excluded within the DIR. (2015 DIR Report, pp. 30, 45, and 46)

Rec-03. Blue Ridge recommends the Company provide, in addition to the jurisdictional allocations and accrual rates for each account, that the information also be provided by subaccount. (2015 DIR Report, pp. 30 and 45)

Rec-04. Blue Ridge recommends, if a Lotus Notes® database is going to be used by management to approve projects, a form be attached to the project documentation to support the approval, providing an audit trail. (2015 DIR Report, p. 37)

Rec-05. Blue Ridge recommends that the Company be required to provide the Commission information on the work orders in the sample selection that are greater than 15% over budget. That information should provide the detailed reason the work order was over budget. If a change order or estimate revision was initiated that increased the original estimate, the Company should provide that change documentation along with all necessary management approvals. (2015 DIR Report, p. 38)

Rec-06. Blue Ridge recommends that work order costs associated with cost elements 141, 145, 154, and 155 be removed from the DIR. These are costs that, in Blue Ridge's opinion, are not payroll, payroll related, or an appropriate overhead cost that benefits the project(s). (2015 DIR Report, pp. 39 and 52)

Rec-07. Blue Ridge recommends, in regard to work order 7900299 involving $669,609 for meter purchase from an affiliate, the Company demonstrate to the Commission that the purchase of meters from AEP affiliates represents the lowest cost alternative to the Company. (2015 DIR Report, p. 39)

Rec-08. Blue Ridge recommends, in regard to work order 7900299 involving 4955 purchased meters for a total cost of $5,924,249, the Company provide to the Commission a comparison of the actual meter costs (without the capitalized labor or other installation costs) with other similar meter type costs, supporting the fact that this purchase was in line with other similar purchases. (2015 DIR Report, p. 39)

Rec-09. Blue Ridge recommends the Company continue to monitor inactive work orders that appear on the inactive work order report and strive to resolve outstanding issues within a reasonable time frame of six months. (2015 DIR Report, p. 41)

Rec-10. Blue Ridge recommends the Company adhere to its stated policy to not hold work orders open to collect additional charges past 90 days. (2015 DIR Report, p. 41)

OVERVIEW OF INVESTIGATION

BACKGROUND

On August 8, 2012, the Public Utilities Commission of Ohio (PUCO or "Commission") issued an opinion and order *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 Case No. 11-346-EL-SSO et al*. In that opinion and order, the Commission established a Distribution Investment Rider (DIR). Through the DIR, AEP Ohio may recover property taxes, Commercial Activity Tax, and associated income taxes and earn a return on and of plant in service associated with distribution net investment regarding Federal Energy Regulatory Commission (FERC) Plant Accounts 360-374. The net capital additions to be included in the DIR reflect gross plant in-service after August 31, 2010, as adjusted for accumulated depreciation. Capital additions, recovered through other riders authorized by the Commission to recover distribution capital additions, will be identified and excluded from the DIR.

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PROJECT SCOPE

The project scope as defined in the RFP is to determine whether Ohio Power Company ("AEP Ohio" or "Company") has implemented its PUCO-approved DIR in compliance with the Opinion and Orders issued in Case Nos. 11-346-EL-SSO and 13-2385-EL-SSO. The audit includes, but is not limited to, the following tasks:

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- Read all applicable testimony and associated workpapers
- Review Plant-in-Service related provisions contained within the Orders in Case Nos. 11-352-EL-AIR and 11-351-EL-AIR
- Obtain and review all additions, retirements, transfers, and adjustments to current date value of plant in service that have occurred for the actual year ended December 31, 2015
- Verification with FERC Form 1 for year 2015
- Obtain and review all appropriate documentation relating to the Company's compliance with its PUCO-approved DIR

[3] Request for Proposal No. RA16-CA-1, *A Compliance Audit of the Distribution Investment Rider of Ohio Power Company*, page 1.

- Obtain and review all appropriate documentation related to compliance with the Commission's Finding and Orders in Case Nos. 14-255-EL-RDR and 15-66-EL-RDR
- Field verification of the used and usefulness of incremental plant in service
- Review all changes in capitalization policy and assess any impacts on the DIR and the impact on O&M expenses
- Assess the Company's utilization of tax changes and provisions and verification of their appropriate treatment within the DIR, including estimating foregone tax reduction opportunities and evaluating the impact on the DIR[4]

AUDIT STANDARD

Blue Ridge used the following standard during the course of the audit: the audit will review the amounts for which recovery is sought to determine whether they are not unreasonable. The determination of whether the amounts for which recovery is sought are not unreasonable will be made in light of the facts and circumstances known to the Company at the time such expenditures were committed.

INFORMATION REVIEWED

Blue Ridge reviewed the following information as required in the RFP.

- Case Nos. 11-346-EL-SSO and 13-2385-EL-SSO
- All applicable testimony and associated workpapers
- Plant-in-service related provisions contained within the Orders in Case Nos. 11-352-EL-AIR and 11-351-EL-AIR
- All changes in capitalization policy and their impacts, if any, on the DIR and on O&M expenses

For ease of reference, excerpts from the Rider DIR portions of the Orders in the above cases are provided in Appendix A.

Blue Ridge also reviewed audit reports from the prior three audits and related files for Case Numbers 13-0419-EL-RDR, 14-0255-EL-RDR, and 15-0066-EL-RDR. Appendix A includes an electronic copy of the audit reports and filings reviewed.

During the audit process, Blue Ridge requested and was provided additional information. A list of the data requested is included as Appendix C. Electronic copies of the information obtained were provided to Staff.

RIDER DIR COMPLIANCE FILINGS REVIEWED

The Company filed and Blue Ridge reviewed the following quarterly DIR filings:

1. 1st Quarter 2015 – Case No. 14-1696-EL-RDR filing dated September 30, 2015
2. 2nd Quarter 2015 – Case No. 14-1696-EL-RDR filing dated June 26, 2015
3. 3rd Quarter 2015 – Case No. 14-1696-EL-RDR filing dated December 29, 2015
4. 4th Quarter 2015 – Case No. 14-1696-EL-RDR filing dated May 18, 2015

VARIANCE ANALYSIS, TRANSACTIONAL TESTING, AND OTHER ANALYSIS

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[4] Request for Proposal No. RA16-CA-1, *A Compliance Audit of the Distribution Investment Rider of Ohio Power Company*, page 2.

To identify, quantify, and explain any significant net plant increases within the individual accounts, Blue Ridge performed account variance analysis. The Company was asked to explain any significant changes. The results of the analysis are included under the section labeled Variance Analysis.

In addition, Blue Ridge selected a sample number from the population of work orders that support the gross plant in service for detailed transactional testing. The sample was selected using a statistically valid sampling technique that would allow conclusions to be drawn in regard to the total population. Additional work orders were selected based on professional judgment. The results of the transactional testing are included in the section labeled Plant in Service.

Blue Ridge also performed various analyses, including mathematical verifications and source data validation, of the schedules that support the Rider DIR Compliance Filings. The report addresses each component of the DIR and the results of these analyses are included within each component's section.

A list of Blue Ridge's workpapers is included in Appendix D.

PRIOR COMPLIANCE AUDITS RECOMMENDATIONS STATUS

Rider DIR compliance audits have been performed covering each of the years 2012 through 2014. Each report included findings and recommendations and were filed appropriately in Case Nos. 13-0419-EL-RDR, 14-0255-EL-RDR, and 15-0066-EL-RDR. The following list includes those recommendations. Following each recommendation is AEP Ohio's response regarding the recommendation's status and Blue Ridge's associated comments based upon observations from this compliance audit.

DIR Compliance Audit 2012

In reference to case no. 13-0419-EL-RDR, the Commission issued Opinion and Order dated April 23, 2014, and Amended Stipulation and Recommendation dated January 17, 2014. The Opinion and Order approved the following items stipulated to by the parties.

1. AEP Ohio agreed to "reduce the December 2012 DIR revenue requirement by $6,154.39 so that the rider recommended by the signatory parties for adoption is 11.93845% of Base Distribution Rates, such that a corresponding adjustment will be made in the quarterly update that follows the decision adopting the stipulation. The adjustment reflects the removal of commercial activity tax on equity from the pretax weighted average cost of capital component of the carrying charge rate, removal of the Commission and OCC assessment, and exclusion of land held for future use."

   Status per Company: In response to a data request regarding the status of this resolution, AEP Ohio replied the Company has implemented applicable resolutions.[5]

2. The Commission also ordered that "the additional 22,000 AMI meters, which were installed after the completion of the gridSMART Phase I rider, should be recovered through the gridSMART Phase 2 rider going forward, to the extent that it is approved by the Commission."

   a. "AEP Ohio will make a filing in the pending gridSMART Phase 2 rider update, Case No. 13-1939-EL-RDR, within 30 days of finalizing the stipulation, recommending recovery of the 22,000 AMI meter investment as part of the decision in that case."

   b. "Upon a decision, in Case No. 13-1939-EL-RDR, approving the inclusion of the 22,000 AMI meters in the gridSMART Phase 2 rider, AEP Ohio will record a DIR adjustment to exclude the investment at the same time that it files its compliance tariffs to update the gridSMART Phase 2 rider. This adjustment will be included in AEP Ohio's next quarterly DIR adjustment filing."

   c. In reaching this agreement, Staff is not endorsing the prudency of the 22,000 AMI meter investment at this time and reserves the right to conduct a prudency review in the gridSMART Phase 2 docket, Case No. 13-1939-EL-RDR. In processing the filing in Case No. 13-1939-EL-RDR Staff will determine whether any additional audit review of the 22,000 AMI meter investment is needed, given the audit review of this AMI investment already conducted by Blue Ridge, and will conduct its review accordingly. The signatory parties take no position at this time whether the prior investment in these 22,000 AMI should be included in the cost-benefit analysis associated with the gridSMART Phase 2

[5] AEP Ohio response to Data Request 7-025.

initiative. The AMI investment will be subject to a cost-benefit analysis and the signatory parties agree that one of the benefits to be credited is the saving associated with recovering this investment through the gridSMART Phase 2 rider as compared to the gridSMART Phase 1 rider."

d. Upon the future filing of the additional reduction to the DIR related to moving recovery of the 22,000 AMI meter investment to the gridSMART

Status per Company: In response to a data request regarding the status of this resolution, AEP Ohio replied the Company is awaiting Commission approval of the final gridSMART Phase I rider filing in Case No. 15-1513-EL-RDR.[6]

DIR Compliance Audit 2013

In reference to case no. 14-0255-EL-RDR, Staff supported the following audit recommendations.

1. The auditor recommended that the Company be required to perform reconciliations of the DIR Plan capital expenditures to the Rider DIR Distribution Plant changes.
2. The auditor recommended that future DIR Plan reports include only Ohio distribution spending.

Status per Company: In response to a data request regarding the status of these recommendations, AEP Ohio replied that the Commission has not issued an order in the case.[7]

DIR Compliance Audit 2014

In reference to case no. 15-0066-EL-RDR, Staff supported three audit recommendations:

1. Minor edits should be made to the DIR quarterly filings for greater clarity
   a. Specify which rider rather than merely refer to "rider"
   b. 2014 Q4 filing, line 35, reads "lesser of lines 25 & 27" instead of "lesser of lines 31 & 33"
   c. 2014 Q4 filing, line 37, should read "based on January 2015 actuals"
2. Show the actual monthly DIR revenues as an additional column to the Revenue Requirement in its next DIR update filing to show the total revenue requirement under-collection through each month of the DIR.
3. For the sake of clarity, calculate the DARR True-Up revenue separately from the (over)/under collection calculation that compares the DIR revenues from the DIR Revenue Requirement.

Status: In response to a data request regarding the status of these recommendations, AEP Ohio replied that the Commission has not issued an order in the case.[8]

[6] AEP Ohio response to Data Request 8-003.
[7] AEP Ohio response to Data Request 7-025.
[8] AEP Ohio response to Data Request 7-025.

FINDINGS AND RECOMMENDATIONS

PROCESSES AND CONTROLS

The compliance audit of the AEP Ohio DIR does not call for a regulatory management audit (i.e., a diagnostic examination purposed to assess the effectiveness and efficiency of operation of a specific regulated utility). However, while Blue Ridge did not perform a management audit, we did review AEP Ohio's processes and controls to ensure that they were sufficient so as to not adversely affect the costs in the DIR. Based on the documents reviewed, Blue Ridge was able to obtain an understanding of the Company's processes and controls that impact each of the plant balances and expense categories within the DIR. Blue Ridge found that AEP Ohio's cost controls were adequate and not unreasonable. The following is a summary of the areas Blue Ridge reviewed.

DIR PREPARATION

Blue Ridge obtained understanding of how the DIR is prepared from AEP Ohio's description of the process: "The Rider is based on the FERC Form 3Q Net Book Value for Distribution Plant. The Net Book Value of gridSMART assets is removed from the rider because recovery of those assets is achieved through the gridSMART rider. The Net Book Value of gridSMART assets is obtained through a query of the owned asset system provided by property accounting. The capital dollars spent for vegetation management are also removed from the rider. These values are obtained from the distribution operations system by [the AEP Ohio regulatory department] and removed from Rider DIR because the recovery of incremental capital dollars for vegetation management [is] recovered through the Enhanced Service Reliability Rider. ADIT is removed from rider DIR per the order in Case Nos. 11-346-EL-SSO and 13-2385-EL-SSO. ADIT values are reflected on the balance sheet for the distribution function only in account 2821001 which is ADIT for utility property. $62,344,000 is then added to reflect the credit provided to rate payers as approved in Case No. 11-351-EL-AIR. In addition, the over/under recovery balance from the previous quarter is added or subtracted to get to the fully adjusted revenue requirement. Once the fully adjusted Revenue Requirement is calculated, AEP Ohio Regulatory provides the base distribution revenue in order to complete the rate design. This revenue is obtained from a query from the customer billing system that can be demonstrated during an onsite audit."[9]

This is the same process used by the Company for the rider's development in previous years.[10]

POLICIES AND PROCEDURES

Blue Ridge requested and received the policies and procedures for the development of the Rider DIR.[11] In its response, the Company provided its management report that was included in Case No. 13-419-EL-RDR. The report contained pertinent policy/procedural elements as follows:

1. Accounting (beginning on page 1)
2. Financial Reporting (beginning on page 52)
3. Supply Chain (beginning on page 253)
4. Audit Services (beginning on page 267)
5. Risk Management (beginning on page 273)

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[9] AEP Ohio's response to Data Request 1-003.
[10] AEP Ohio's response to Data Request 1-005.
[11] AEP Ohio's response to Data Request 1-010, Attachment 1.

The following discussion presents a general overview of these elements.[12]

Accounting

The section of the Company's management report containing Accounting policy provided information regarding description of impetus and method for accounting issue modifications. The senior vice president, controller, and chief accounting officer is responsible for setting overall accounting policy affecting the operating companies, thus maintaining a higher degree of similarity among the operating companies for similar accounting transactions. Of course, in some circumstances, compliance with jurisdictional and local requirements may demand specific differences.

Each department determines goals and objectives on an annual basis. These departmental goals and objectives relate to the overall corporate goals and objectives. Criteria used in determining goals and objectives include available resources, benefits to be derived, community presence, historical precedent, and trends as well as future projections, regulatory requirements, and contribution to overall corporate goals and objectives.

Besides the Policy and Goal Setting subsection just discussed, each major policy section also contains the following sub-sections:

a. Strategic and Long-Range Planning
b. Organization Structure
c. Decision-Making
d. Ring-Fencing
e. Controlling Process
f. Internal and External Communications

Specific accounting procedures presented include Fixed Asset Policy and Conventions, Financial Reporting Policies and Conventions, Regulatory Accounting Policy and Conventions, Treasury Policies and Conventions, Revenue and Receivables Policies and Conventions, Share-based Payment Policy and Conventions, Intangibles – Goodwill and Other Policy and Conventions, Pension and Postretirement Benefit Plan Policies and Conventions, Tax Accounting Policy and Conventions, and Inventory.

Financial Reporting

Within the Accounting section of the management report, but separately gathered as Exhibit 4 to that section, is the discussion of Process Overview of the Financial Reporting Cycle. Within the Financial Reporting cycle the Company details its processes and sub-processes:

a. Disclosures
    - Summary Obligation Information
    - Quantitative and Qualitative Disclosures about Risk Management Activities
    - Variable Interest Entities
    - Earnings Per Share
    - New Accounting Pronouncements, Cumulative Effect of Accounting Changes and Extraordinary Items
    - Goodwill and Other Intangible Assets

[12] The information discussed under all five points of this general overview of policies and procedures comes from AEP Ohio's response to Data Request 1-010, Attachment 1.

- Rate Matters
- Effects of Regulation
- Commitments and Contingencies
- Guarantees
- Acquisitions, Dispositions, Discontinued Operations, Impairments and Assets Held for Sale
- Benefit Plans
- Business Segments
- Derivatives and Hedging
- Fair Value Measurements of Financial Assets and Liabilities
- Fair Value Measurements of Investment Securities
- Fair Value Measurements of Long-term Debt
- Income Taxes
- Leases
- Financing Activities – Common Stock and Preferred Stock
- Financing Activities – Long-term Debt
- Financing Activities – Money Pool
- Financing Activities – Sale of Receivables
- Financing Activities – Short-term Debt
- Stock-Based Compensation
- Related Parties
- Property, Plant and Equipment
- Asset Retirement Obligations
- Jointly-Owned Electric Utility Plant[13]
- Unaudited Quarterly Financial Information

b. Financial Statements
   - Income Statement for 10K/10Q Presentation
   - Equity Statement for 10K/10Q Presentation
   - Balance Sheet for 10K/10Q Presentation
   - Cash Flow Statement for 10K/10Q Presentation

Several pages of Work Program Review forms follow. The Fair Value Measurement Policy and the Accounting Policy Manual Hedging Activities are provided. Finally, the Revenue Netting Policy is recorded.

Supply Chain

AEP Ohio does not issue its own Supply Chain policies but rather supports the policies within the overall AEP system of operating and affiliate companies. Departmental progress toward achieving operational objectives is reported to senior management on a quarterly basis. Objectives are communicated in both written and oral fashion. These objectives are in view during performance reviews, staff meetings, and other ad-hoc performance coaching sessions.

The responsibilities for the departments within Supply Chain and Fleet Operations include the following:

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[13] The Disclosure process for Jointly-Owned Electric Utility Plant appears in the Management Report twice—first on page 123 and then repeated on page 124.

a. Supply Chain & Fleet Operations – AEP Ohio
    - Supply Chain Inventory Operations
    - Fleet Services
b. Supply Chain Operations – Regional Distribution Centers
    - Supply Chain Regional Distribution Center Operations – Canton, Ohio
c. Supply Chain Operations – Generation
    - Supply Chain Inventory Operations – Indiana Michigan Power, Cardinal Plant, AEP Ohio South Region
    - Supply Chain Inventory Operations – AEP Ohio North Region & Gas Units
    - Asset Recovery
    - Catalog Services
d. Supply Chain & Fleet Operations – Inventory Management
    - Supply Chain & Fleet Technical Reporting and Analysis
    - Distribution Inventory Management
    - Transmission Inventory Management
    - Fleet Services Analysis Support

Audit Services

AEP has an internal audit function with approximately forty in-house personnel. The overall goal is to function as an independent appraisal activity for AEP by helping management and the board of directors control business risks within acceptable levels. The Audit Services Charter lists the scope of the department to include the following:

a. Assisting the Audit Committee in carrying out their duties and responsibilities.
b. Assisting the Audit Committee in carrying out their duties and responsibilities.
c. Appraising the effectiveness and application of internal control over financial reporting, compliance with laws, and operations.
d. Coordinating and managing the Sarbanes-Oxley 302 and 404 internal control reporting processes.
e. Evaluating sufficiency of and adherence to Company plans, policies and procedures and compliance with the requirements of regulatory bodies.
f. Ascertaining the adequacy of controls for safeguarding Company assets and when appropriate, verifying the existence of assets.
g. Appraising the quality of performance in carrying out assigned responsibilities.
h. Coordinating audit planning and scheduling activities with the independent auditor.
i. Conducting special examinations at the request of management or the Board of Directors.

The strategy employed by Audit Services includes conducting a risk assessment / audit prioritization process each year to create an annual audit plan. Input to the plan includes management interviews; strategic plan review; enterprise risk management reports review; budgets and forecasts review; prior audit results; trade, regulatory, and professional literature review; news articles; external auditor interviews; and most current fraud risk assessment reference.

Risk Management

Risk & Strategic Initiatives holds responsibility for monitoring compliance with the risk management policies, procedures, and strategies as established by the policies for credit risk, AEP

Commercial Operations market risk, and enterprise risk management. Specifically, major areas of responsibility include the following:

a. Manage AEP's insurance programs
b. Captive insurance oversight
c. Hazard risk analysis
d. Claims management
e. Hazard risk control
f. Evaluating and reporting AEP's risks on an enterprise basis
g. Market risk oversight
h. Credit risk management
i. Pension and benefit plan investment oversight
j. Strategic initiatives basis

Capitalization Policies

In the 2012 audit, Blue Ridge had asked for the policies that related to the capitalization process. The Company provided six policies/procedures of process documentation.[14] Blue Ridge reviewed these documents to reacquaint itself with the policies.

1. Acquiring Fixed Assets Authorization—The purpose of this policy is to outline the Capital Improvement Requisition Interface between PeopleSoft Projects and PowerPlant.
2. Fixed Asset Closing (Work Order Closing)—This document details the process of completing the acquisition of Fixed Assets.
3. Fixed Asset Completion—This flowchart presented the process path for completion of work orders.
4. Depreciating Owned Assets Process—The purpose of this process documentation is to outline the depreciation process for owned assets.
5. Disposition of Fixed Assets—The purpose of this procedure is to outline the fixed asset disposition process.
6. Fixed Assets Reporting Process—The purpose of this process documentation is to outline the fixed asset reporting process.

Blue Ridge also requested and received a listing of changes that have occurred to the capitalization policies since the 2012 audit:[15]

1. September 2012: Established a retirement unit for the application of epoxy sealant to an underground vault which increases the lifespan of the underground vault by 15 to 20 years and also protects the environment from oil spills.
2. May 2013: Established a retirement unit for a Line Voltage Monitor which strategically monitors the distribution voltage levels typically in coordination with Volt Var Optimization (VVO) applications and to provide data to the Distribution SCADA system. This was new technology to AEP.
3. May 2013: Established a retirement unit for a Voltage Regulator Control which controls distribution voltage regulators locally, through Distribution SCADA and in coordination with Volt Var Optimization (VVO) applications.
4. May 2014: Provided guidance on time reporting for safety meetings. Based on the Company's review, they determined that it was reasonable to allocate safety meeting time

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[14] AEP Ohio's response to 2012 Data Request 1-008, Attachments 1 through 6.
[15] AEP Ohio's response to Data Request 1-011, Attachment 1.

between capital and O&M. Previously only jobsite safety briefings qualified for capitalization.

5. December 2014: Established retirement units for a High Thermal Event Protection System (HTES) and a HTES Battery Supply. The HTES monitors the condition of network equipment in indoor building vaults and will isolate and de-energize the equipment in the event of a failure. This was a new use of technology at AEP.
6. June 2015: Established retirement units for a Network Data Concentrator, Network Data Hub, and a Network Sensor. This equipment is part of the network monitoring solution being implemented across the AEP System. This was a new use of technology at AEP.

Blue Ridge determined that the Company's capitalization policy, including changes made since the 2012 audit, was adequate and not unreasonable.

Rider DIR Internal Audit and SOX Audit

Blue Ridge reviewed the documentation issued on February 12, 2016, concerning the internal audit performed on Rider DIR.[16] The overall conclusion of the audit was that the DIR process was well controlled but minor improvements were needed. The individual areas of audit included the following:

i. Authorization and Reporting of AEP Ohio Distribution Capital Expenditures
ii. Calculation of the Annual DIR Revenue Requirement
iii. DIR and Related Residential Distribution Credit Rider Tariffs
iv. Accounting for Riders
v. Customer Billing

The conclusion for each of these areas was that the process was well controlled. However, minor improvements were noted for the first area, Authorization and Reporting of AEP Ohio Distribution Capital Expenditures. Risk significance in this are was medium, meaning that the likelihood of the condition occurring was more than remote or potential impact was significant in relationship to the underlying information, overall objectives, or level of compliance. The concern noted was described as follows:

> Net plant additions recoverable through the DIR are quantified using PowerPlant queries that accumulate net plant additions for Ohio distribution that are filtered to exclude general plant additions not recoverable through DIR. A quarterly reconciliation is not performed between actual capital expenditures and the Electric Plant In-Service additions utilized in the quarterly DIR revenue requirement calculations. The reconciliation would provide transparency and linkage between the capital investment being recovered through the DIR and the actual capital expenditures for AEP Ohio.[17]

According to the review, resolution for this concern would be to conduct quarterly reconciliations as described. Upon request, the Company did confirm that a reconciliation was performed at the end of the first quarter 2016.[18]

Several other internal audits were also performed having a bearing on the DIR. The DIR is made up of Utility Plant in Service, which is fed from CWIP (Construction Work in Progress).

[16] AEP Ohio's response to Data Request 1-014, Attachment 1.
[17] AEP Ohio's response to Data Request 1-014, Attachment 1, page 4 of 5.
[18] AEP Ohio's response to Data Request 7-001.

Therefore, any system that feeds CWIP, including such systems as Payroll, Transportation, and direct contractor charges through purchasing, could affect the DIR.

Of the internal audits conducted in 2015, Blue Ridge found that none concluded major improvements were needed or that significance of any finding was high.

- In an audit of Controls over Accounts Payable Feeders and Processes, two findings were noted. One involved the Accounts Receivable group manually checking disbursement authorizations for types of refunds. Auditors noted that proper authorization was lacking when comparing the approver's limits against the designated PeopleSoft vendor class. The Company implemented review steps to resolve the issue.

  The second finding was to note that, of a certain time period's contract payment authorizations, 0.1% of them did not transmit an approver's user ID and/or name to PeopleSoft Payables. The Company is currently working on root cause analysis so as to implement remediation steps.[19]

- In an audit of Expense Reporting Process, two findings were noted. One involved the operation of the automated notification process that sends notification to employees regarding the expense application process. Programming changes were implemented, rectifying the issue.

  The second finding involved some procedural issues that were compromised through error and workarounds. The Company is developing required annual training to alleviate the errors found.[20]

- Two other issues were found in two other internal audits having to do with vendor contracts. In both cases, the Company determined it overpaid for services, albeit for differing reasons. In both cases, the Company is pursuing refunds.[21] In both cases, Blue Ridge recommends that should the Company receive those refunds, the DIR of the year in which the refund is received should reflect the appropriate impact of the refund(s).

Additionally, the SOX control audit activity specifically targeting DIR processes did not reveal any improper design or inefficient operation.[22] The SOX controls audit performed in regard to Expenditure Purchasing, Expenditure Payroll, and Allocations Processes, resulted in one failed control regarding quarterly access review for STORMS, the system used by distribution crews to enter time. The problem was one of effectiveness; the quarterly access review was not being performed for the STORMS time-reporting application. This item was rated as a deficiency (the least significant type of control failure). To correct, the Company completed the 2015 fourth quarter quarterly access review.[23]

Conclusion

From the documents reviewed, Blue Ridge was able to obtain an understanding of the Company's processes and controls that affect the DIR. Furthermore, we were satisfied with actions taken with regard to internal audits and SOX compliance testing. Blue Ridge concluded that AEP Ohio's controls were adequate and not unreasonable.

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[19] AEP Ohio's response to Data Request 2-001, Attachment 1.
[20] AEP Ohio's response to Data Request 2-001, Attachment 2.
[21] AEP Ohio's response to Data Request 2-001, Attachments 4 and 8.
[22] AEP Ohio's response to Data Request 1-015, Attachment 1, and 2-002, part b.
[23] AEP Ohio's response to Data Request 9-001.

VARIANCE ANALYSIS

Blue Ridge's variance analysis focused on identifying, quantifying, and explaining any significant net plant increases within the individual plant accounts. The Company was asked to explain any significant changes. Based on its investigative and analytic evaluation of the increases, Blue Ridge can then arrive at its conclusion of the reasonableness of those changes.

To determine the reasonableness of any changes in account balances, Blue Ridge conducted variance analyses targeting four comparison areas of account balances:

1. **Beginning DIR to Prior FERC Form 1:** Beginning of the year 2015 DIR filing compared to the end of the prior year (2014) FERC Form 1 filing by account
2. **2015 DIR to 2015 FERC Form 1:** 2015 DIR quarterly filings compared to 2015 FERC Form 1 Annual Report and each quarterly Supplemental Form 3-Q
3. **2015 DIR Filings Period to Period:** 2015 DIR quarterly filings, comparing one quarter to the next and comparing the 4th quarter to the 2014 DIR 4th quarter
4. **2015 Additions, Retirements, and Transfers/Adjustments:** 2015 Distribution Plant beginning balances by account compared to the 2015 ending balances for those accounts, while evaluating additions, retirements, and transfers/adjustments over the course of the year

ANALYSIS: BEGINNING DIR TO PRIOR FERC FORM 1

To be assured that the 2015 DIR calculations began from consistent account balances, Blue Ridge compared the end of the year 2014 DIR filing[24] distribution account balances with the AEP 2014 FERC Form 1 distribution account balances. Balances all matched, giving reasonable assurance that the 2015 DIR calculations began from accurate account amounts.

ANALYSIS: 2015 DIR TO 2015 FERC FORM 1

Since the 2015 DIR calculations for each quarter are based on the Company's distribution account balances, Blue Ridge compared the account balances provided in each quarter's DIR filings[25] to the 2015 FERC Form 1 quarterly Supplemental Form 3-Qs.[26] For each quarter, account balances matched providing reasonable assurance that the account amounts used in calculations were accurate.

ANALYSIS: 2015 DIR FILINGS PERIOD TO PERIOD

One indicator assisting in providing assurance of consistent treatment of distribution capital assets can be the size of the changes to the distribution accounts from quarter to quarter and year to year. To satisfy the question of appropriate changes from one period to the next, Blue Ridge identifies any significant variances and then requests explanations for those variances from the Company. Blue Ridge performed a quarter to quarter comparison of the 2015 DIR quarterly filings[27] (including the first quarter comparison to the 2014 fourth quarter filing) and found that none of the account variances reached a level of concern. Blue Ridge also compared the 2015 DIR fourth

[24] AEP 2014 4th quarter DIR filing, PUCO docketing system, case 14-1696-EL-RDR, filed 5/15/15.
[25] AEP Ohio's response to Data Request 1-002, Attachments 1–4.
[26] AEP Ohio's response to Data Request 1-007, Attachments 1–4.
[27] AEP Ohio's response to Data Request 1-002, Attachments 1–4.

quarter filing to the 2014 fourth quarter filing and found that the changes on an annual basis also did not rise to a level of concern.

Analysis: 2015 Additions, Retirements, and Transfers/Adjustments

To be assured of appropriate 2015 distribution account changes regarding additions, retirements, and transfers/adjustments, Blue Ridge requested and received the 2015 beginning and ending period balances by primary plant account for additions, retirements, transfers, and adjustments.[28]

Table 1: AEP 2015 Distribution Plant Additions, Retirements, and Transfers/Adjustments

Utility Account	01/01/2015 balance	additions	retirements	trans_adj	12/31/2015 balance
36000 - Land	17,099,425.52	1,707,257.97	(10.49)	(2,060,463.65)	16,746,209.35
36010 - Land Rights	40,671,157.27	2,087,779.45	-	-	42,758,936.72
36100 - Structures and Improvements	20,432,375.06	136,938.11	(211,832.90)	(64,851.74)	20,292,628.53
36200 - Station Equipment	594,742,797.88	48,744,641.54	(4,487,875.32)	-	638,999,564.10
36300 - Storage Battery Equipment	5,069,926.03	-	-	-	5,069,926.03
36400 - Poles, Towers and Fixtures	654,180,595.19	41,410,693.79	(8,665,560.78)	-	686,925,728.20
36500 - Overhead Conductors, Device	672,468,181.06	54,671,826.26	(14,378,715.98)	-	712,761,291.34
36600 - Underground Conduit	205,104,903.93	17,978,244.60	(147,282.19)	(3,905.36)	222,931,960.98
36700 - Undergrnd Conductors,Device	567,345,526.91	39,941,954.33	(6,627,120.59)	3,905.36	600,664,266.01
36800 - Line Transformers	716,261,528.92	35,693,202.77	(16,869,105.70)	-	735,085,625.99
36900 - Services	315,224,715.93	8,005,788.02	(2,331,967.32)	-	320,898,536.63
37000 - Meters	161,907,387.55	16,896,881.96	(12,160,658.44)	-	166,643,611.07
37016 - AMI Meters	20,299,870.57	238,020.90	(674,096.46)	-	19,863,795.01
37100 - Installs Customer Premises	54,332,413.34	2,353,719.89	(2,074,132.45)	-	54,612,000.78
37200 - Leased Prop Cust Premises	103,793.00	-	(726.00)	-	103,067.00
37300 - Street Lghtng & Signal Sys	38,739,734.59	1,629,732.80	(651,383.33)	-	39,718,084.06
	4,083,984,332.75	**271,496,682.39**	**(69,280,467.95)**	**(2,125,315.39)**	**4,284,075,231.80**

In reviewing the spreadsheet information provided, Blue Ridge's analysis focused on irregular items (e.g., negative balances for UPIS additions and large UPIS transfers). After reviewing the balances for the accounts within the period scope, Blue Ridge identified five accounts for which we requested explanation regarding the activity. The following list includes the identified accounts and their explanations:[29]

1. Account 360 – Land 2015 Transfers/Adjustments: $(2,060,463.65)

   Blue Ridge concern: Large negative transfer/adjustment

   AEP Response: The Canton General Service Center was purchased from the Lessor. The excess land included in the purchase was transferred to non-utility account 1210001 out of 1010001 Electric Plant in Service ($2,058,451.65). Additionally, the South Mt. Vernon 69kv substation was retired and the land under it was reclassified to 1210001, non-utility property ($2,012.00).

2. Account 360.1 – Land Rights 2015 Transfers/Adjustments: $(64,851.74)

   Blue Ridge concern: Large negative transfer/adjustment

   AEP Response: The Walnut Test site was moved to non-utility account 1210001 ($68,758.74). Additionally, a correction of the asset location for Fairdale Substation was recorded ($3,907.00).

3. Account 366 – Underground Conduit 2015 Retirements: $(147,282.19)

[28] AEP Ohio's response to Data Request 1-016, Attachment 1.

[29] AEP Ohio's response to Data Request 5-001 (including attachments).

Blue Ridge concern: Retirements are considerably less than the additions to plant for this account.

AEP Response: AEP Ohio embarked on a large project to upgrade and improve underground facilities. This project consisted of additions of network ducts, manholes, vaults, exits, and new facilities throughout the Ohio region. The work generally did not replace existing facilities but rather added to them to make the underground network more robust. So the level of retirement is reflective of the fact that not many assets were replaced.

4. Account 370 – Meters 2015 Retirements: $(12,160,658.44)

   Blue Ridge concern: Retirements (although less than additions) are considerably large in relationship to the additions for this account.

   AEP Response: AEP Ohio entered into a major project to update the current electromechanical meters to AMR (automated meter reading) meters. The AMR technology provides the Company with the means to read meters remotely. The Company focused on areas of its service territory that would not generally be part of the planned AMI meter roll-out in gridSMART Phase 2.

5. Account 370.16 – AMI Meters 2015 Retirements $(674,096.46)

   Blue Ridge concern: Retirements are greater than the additions for this account.

   AEP Response: The retirements for account 370.16 reflect the retirement of Network Interface Card (NIC) 200 series AMI meters, which are no longer compatible with the firmware the Company now uses. The Company had a greater stock of this type of meter than what was needed for the short term, so no replacements were ordered for the retired meters. Therefore the retirements were a larger value than the additions.

Conclusion

Based on Blue Ridge's review of variances in the Company account balances during the 2015 DIR year, no variances resulted in concerns for the proper calculation of DIR amounts.

Revenue Requirements

Overview of Methodology

In Case No. 11-346-EL-SSO et al., (*ESP 2 Case*) the Company requested a Distribution Investment Rider (DIR) that would allow carrying costs on incremental distribution plant to be recovered each year using a pre-tax weighted average cost of capital (WACC) and an O&M component. The DIR revenue requirement excluded recovery on plant included in prior base distribution rate cases and plant recovered in other riders.

The Commission approved the DIR (with modifications) as "an appropriate incentive to accelerate recovery of AEP Ohio's prudently incurred distribution investment costs." The Commission ordered that the DIR mechanism not include any gridSMART costs.[30] The gridSMART projects are separate from the DIR and are recovered through the gridSMART rider. The DIR also excludes capital dollars spent for vegetation management that are recovered through the Enhanced

[30] Case No. 11-346-EL-SSO, et al., Order dated August 8, 2012, page 46.

Service Reliability Rider (ESRR). Furthermore, the Commission ordered that the DIR mechanism be revised to account for accumulated deferred income tax (ADIT).[31]

The DIR is subject to an annual cap with allowances for over or under recovery. The rider is collected as a percentage of base distribution revenue.[32] It is updated quarterly based on the incremental increase in the net plant balance as shown on Form 3Q. The DIR was scheduled to end May 31, 2015.[33]

Case No. 13-2385-EL-SSO extended the DIR through May 2018 and incorporated several modifications. The modifications included approval of rate caps for 2015 through May 2018, a revision to the property tax calculation, and modifications to adopt six recommendations by Staff regarding detailed account information, jurisdictional allocations and accrual rates, reconciliation between functional ledgers and FERC form filings, revenue collected by month in the DIR, highlighting and quantifying DIR capitalization policy, and the filing of an updated depreciation study by November 2016.[34]

In a Second Entry on Rehearing in Case No. 13-2385-EL-SSO, the Commission authorized revenue caps for the DIR to be set at $145 million for 2015 (including amounts previously authorized in the *ESP 2 Case*), $165 million for 2016, $185 million for 2017, and $86 million for January through May 2018.[35]

The Commission also reaffirmed the DIR is a percentage of customer base distribution charges.[36] The DIR percentages of base distribution at the end of 2014 and each quarter of 2015 are shown in the following table.

Table 2: Rider DIR - Percentage of Base Distribution Revenues by Quarter

Period	Percent of Base Distribution
End of 2014	23.81102%
1st Quarter 2015	24.34979%
2nd Quarter 2015	25.58994%
3rd Quarter 2015	27.11645%
4th Quarter 2015	28.15380%

REVISIONS TO DIR ORDERED IN CASE NO. 13-2385-EL-SSO

In Case No. 13-2385-EL-SSO, as part of the Commission's extension of the DIR, the Commission ordered several modifications to the DIR. These modifications included the adoption of six recommendations made by Staff, adoption of OCC's recommendation regarding property taxes, and the inclusion of gridSMART Phase 1 capital costs within the DIR.

Staff's Recommendations

The Commission adopted the following six recommendations made by Staff.[37] The Company provided the status of each of these recommendations.

[31] Case No. 11-346-EL-SSO, et al., Order dated August 8, 2012, page 47.
[32] Case No. 11-346-EL-SSO, et al., Direct Testimony of Andrea E. Moore, page 13.
[33] Case No. 11-346-EL-SSO, et al., Direct Testimony of William A. Allen, page 10.
[34] Case No. 13-2385-EL-SSO, et al., Order dated February 25, 2015, pages 46-47.
[35] Case No. 13-2385-EL-SSO, et al., Second Entry on Rehearing dated May 28, 2015, page 24.
[36] Case No. 13-2385-EL-SSO, et al., Order dated February 25, 2015, page 46.

1) Recommendation Detailed Account Information: AEP should file what plant in service is being recorded and recovered in the Enhanced Vegetation Rider, the gridSMART Phase II Rider and the Solar Rider (and any other rider which is recovering Distribution plant in service). AEP should provide this information by plant account and subaccount for each rider. Providing this information to the Commission is critical because it will allow Staff to ensure that no plant in service costs related to other riders are being recovered in the DIR.

   Status per Company: The Company stated that it has worked with Staff and implemented Staff's recommendations, beginning with the filing for September 2015 plant balances.[38]

   Blue Ridge's Comment: The Company stated that the Enhanced Service Reliability and gridSMART were the only riders that included distribution plant.[39] As a result the September 2015 and December 2015 DIR filings include workpapers listing the plant amounts included within the Enhanced Vegetation Rider and the gridSMART Rider only. The amounts shown on the workpapers for the Enhanced Vegetation Rider and the gridSMART plant flowed through the DIR revenue requirement calculation.

   There is a timing difference among DIR, ESRR, and gridSMART filings that will make it very difficult for future auditors to reconcile the recovery of plant among the ESRR, gridSMART, and DIR riders. Blue Ridge recommends that the Company provide a reconciliation in future filings comparing the amount of plant recovered in ESRR and gridSMART riders with the amount shown excluded within the DIR.

2) Recommendation Jurisdictional Allocations and Accrual Rates: Require AEP to use the jurisdictional allocations and accrual rates for each account and subaccount that were approved in AEP's prior AIR case, subject to Staff's exception for gridSMART depreciation rates.

   Status per Company: The Company stated that it has worked with Staff and implemented Staff's recommendations, beginning with the filing for September 2015 plant balances.[40]

   Blue Ridge's Comment: Blue Ridge reviewed the added workpaper included with the September and December 2015 plant balance filings that provide the jurisdictional allocations and accrual rates for each account and subaccount. While the Company added the jurisdictional allocations and accrual rates for each account, the information for the subaccounts was not provided. Blue Ridge recommends the Company provide, in addition to the jurisdictional allocations and accrual rates for each account, the information by subaccount.

3) Recommendation Reconciliation Between Functional Ledgers and FERC Form Filings: In each DIR filing, AEP should include, for each account and subaccount, a full reconciliation between the functional ledger and FERC form filings as well as detailed workpapers showing the jurisdictional allocation, accrual rates and reserve balances of each account and

[37] Case No. 13-2385-EL-SSO, Opinion and Order dated February 25, 2015, pages 46-47 and the Prefiled Testimony of Doris McCarter (Staff Exhibit 17, pages 5-7).
[38] AEP Ohio response to Data Request 8-001.
[39] AEP Ohio response to Data Request 1-037.
[40] AEP Ohio response to Data Request 8-001.

subaccount. AEP should be directed to provide this information for any rider being used to collect costs recorded in the Distribution Plant Accounts, by rider and as a grand total. Commission Staff needs this information to determine whether the appropriate allocation of cost recovery is occurring between the DIR and other riders. This information will also help Staff ensure that the Company is adhering to the accrual schedules ordered in the previous rate case.

Status per Company: The Company stated that it has worked with Staff and implemented Staff's recommendations, beginning with the filing for September 2015 plant balances.[41]

Blue Ridge's Comment: Blue Ridge was able to reconcile the FERC accounts included within the DIR filing to the FERC Form 1. No further work is required.

4) Revenue collected by month in the DIR: AEP should also be directed to detail the DIR revenue collected by month and to date in its filings to demonstrate compliance with the annual revenue caps authorized by the Commission.

   Status per Company: The Company stated that it has worked with Staff and implemented Staff's recommendations, beginning with the filing for September 2015 plant balances.[42]

   Blue Ridge's Comment: The Company included a workpaper within the DIR filing comparing the monthly and to date DIR revenue requirement with the Billed DIR. The monthly DIR revenue requirement was generated by a run of the DIR calculation based on DIR plant every month. The Company assumed that the Billed DIR amount equals the revenue received. No further work is required.

5) Highlighting and quantifying DIR capitalization policy: Any further changes AEP proposes to make to its capitalization policy should be highlighted and quantified in the DIR filing preceding the implementation of the change. This would allow the Commission to consider the proposed change and ensure that there is no inappropriate recovery from AEP customers.

   Status per Company: The Company stated that it has worked with Staff and implemented Staff's recommendations, beginning with the filing for September 2015 plant balances.[43]

   Blue Ridge's Comment: No capitalization policy changes have been reported by the Company since September 2015.[44]

6) Filing of an updated depreciation study by November 2016: AEP to file a fully updated depreciation study by November 2016 with a study plant date of December 31, 2015.

   Status per Company: The Company stated that it has not yet filed an updated depreciation study. The Company will file the study by November 2016.[45]

[41] AEP Ohio response to Data Request 8-001.
[42] AEP Ohio response to Data Request 8-001.
[43] AEP Ohio response to Data Request 8-001.
[44] AEP Ohio response to Data Request 1-011, attachment 1.
[45] AEP Ohio response to Data Request 8-001.

Blue Ridge's Comment: According to the Company, the updated depreciation study will be filed in November 2016.

OCC's Property Taxes Recommendation

The Commission adopted OCC's recommendation to modify the property tax calculation. The Commission ordered the DIR property tax be modified as follows: for the purpose of calculating property taxes, the depreciation reserve should be adjusted to eliminate the cumulative amortization of the excess depreciation reserve since December 31, 2011 (when rates in Case Nos 11-351-EL-AIR and 11-352-EL-AIR went into effect). This will reflect the change in the base on which property taxes are calculated more accurately and net plant to which the property tax is applied.[46] The Company stated that it has implemented the Commission's order with respect to the property tax adjustment beginning with the DIR filing for June 2015 plant balances. The Company modified the depreciation reserve in the Company's DIR filings for June 2015 and subsequent plant balances as detailed in the testimony of OCC witness Effron. The adjustment is equal to $2,900,000 multiplied times the number of months subsequent to December 2011.[47]

Blue Ridge reviewed the plant balance in the DIR filings for June, September, and December 2015 and found, for the purposes of calculating property taxes, the depreciation reserve has been offset as ordered by the theoretical reserve Offset.[48] The following table provides the offset amounts.

Table 3: Theoretical Reserve Offset

Period	Adjustment	# of Months	Calculated Theoretical Reserve	Amount Offset in DIR
1st Quarter 2015				n/a
2nd Quarter 2015	$ 2,909,000	42	$122,178,000	$122,178,000
3rd Quarter 2015	$ 2,909,000	45	$130,905,000	$130,905,000
4th Quarter 2015	$ 2,909,000	48	$139,632,000	$139,632,000

Blue Ridge found the application of the theoretical reserve offset prior to calculating property tax is not unreasonable.

gridSMART Phase 1 Transfer

The Commission approved the Company's request to transfer gridSMART Phase I capital costs to the DIR mechanism upon the Company's accounting for all USDOE reimbursements. After the Commission has reviewed and reconciled the gridSMART Phase I costs, the Company may transfer the approved capital costs balance into the DIR, which will not be subject to the DIR caps, and may also transfer any unrecovered O&M balance into the gridSMART Phase 2 rider.[49] The Company stated that it is awaiting Commission approval of the final gridSMART Phase I rider filing in Case No. 15-1513-EL-RDR.[50]

[46] Case No. 13-2385-EL-SSO, Opinion and Order dated February 25, 2015, page 46 and the Prefiled Testimony of David Effron (OCC Exhibit 18, pages 8-11.
[47] AEP Ohio response to Data Request 8-002.
[48] AEP Ohio response to Data Request 7-004.
[49] Case No. 13-2385-EL-SSO, Opinion and Order dated February 25, 2015, page 52.
[50] AEP Ohio response to Data Request 8-003.

As part of this audit, Staff requested that Blue Ridge review the methodology the Company plans to use to effect the transfer of gridSMART Phase I capital costs to the DIR mechanism. The Company explained the planned methodology:

> At the conclusion of the final order of gridSMART Phase 1 costs, the Company will no longer adjust the gridSMART Net Book Value out of the DIR Net Book Value calculation. The Company will stop the carrying charge calculation of the Phase I assets through that rider the same month that the NBV is no longer excluded in the DIR to assure no double recovery. For example: if the final Phase I order is in May of 2016, the compliance filing for that order would include capital carrying charges on Phase I assets through May of 2016, the DIR rider calculation will continue to remove the NBV of Phase I assets through may 2016, and for June 2016, the Phase I rider will no longer calculate carrying charges on the Phase I assets and the DIR will stop excluding the Phase I NBV. The additional AMI meters, which makes up the 22,000 plus any other AMI meters held in inventory or purchased to replace failing AMI meters, will be accounted for in the gridSMART Phase 2 Rider upon its approval. The opposite will happen at that time. The Company will query from the owned asset system the gridSMART Net Book Value and remove from the 37016 all other Net Book Value. This will continue to assure that only the gridSMART Phase 1 meters are included in the DIR, and all others are included in gridSMART Phase 2."[51]

Further follow up clarified several items.

As meters are a mass asset and are not tracked individually, the net book value will be determined through a particular code assessed to them in the owned asset system just as the Company queries the Phase I assets currently to remove all of the net book value related to the gridSMART assets.

Meters are recorded by vintage year. The Company stated that it follows FERC's Electric Plant Instruction #10, (2) "Additions and Retirements of Electric Plant," which states, "If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to electric plant shall be charged to the accumulated provision for depreciation applicable to such property. . . ." Since for the meter retirements the credit to book cost was equal to the debit to accumulated depreciation, the meters were treated as fully depreciated with no undepreciated cost. To determine the net book value, the Company prepared an estimate of accumulated depreciation for the Phase I gridSMART meter retirements based on the Commission order in that case.[52]

Blue Ridge reviewed the planned methodology to effect the transfer of gridSMART Phase I capital assets to the DIR and found it not unreasonable.

<u>Mathematical Accuracy</u>

Blue Ridge validated the mathematical calculations in the Company's revenue requirement model for each quarter and found them not unreasonable. The following sections address the verification and validation of the various components of the DIR, including net plant in service, exclusions, ADIT, carrying charge rate, revenue offset, annual cap and over or under recovery, and the annual base distribution revenue.

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[51] AEP Ohio response to Data Request 1-042.
[52] AEP Ohio response to Data Request 3-003.

Net Plant in Service

The DIR allows carrying costs on net distribution plant[53] associated with FERC Plant Accounts 360-374 for plant placed in service after date certain, August 31, 2010.[54]

The accumulated reserve for depreciation is accumulated based on the Commission-approved depreciation rates by FERC account.[55] The last depreciation study was performed based on plant in service at December 31, 2009. New deprecation rates based on this study were approved in the distribution rate Case No. 11-351-EL-AIR et al. Settlement. The rates went into effect in January 2012.[56] The Company has committed to file an updated depreciation study by November 2016.[57]

Blue Ridge confirmed that the Company used the date certain net plant approved by the Commission in Case No. 11-351-EL-AIR et al.[58] in the Rider DIR revenue requirement model.[59] The date certain net plant in service amounts by Company are shown in the following table.

Table 4: Net Distribution Plant by Company as of August 31, 2010

Description	Columbus Southern	Ohio Power	Total
Distribution Plant	$ 1,749,696,000	$ 1,596,229,000	$ 3,345,925,000
Accumulated Depreciation	$ 729,024,000	$ 524,149,000	$ 1,253,173,000
Net Distribution Plant	$ 1,020,672,000	$ 1,072,080,000	$ 2,092,752,000

The incremental net plant for which the Company is seeking recovery (prior to any exclusions discussed later in this report) is shown in the following table.

Table 5: Incremental Net Plant in Service Included in Rider DIR

Description	1st Q 2015	2nd Q 2015	3rd Q 2015	4th Q 2015
Distribution Plant as of 8/31/2010	$ 3,345,925,000	$ 3,345,925,000	$ 3,345,925,000	$ 3,345,925,000
Accumulated Depreciation as of 8/31/2010	$ 1,253,173,000	$ 1,253,173,000	$ 1,253,173,000	$ 1,253,173,000
Net Distribution Plant	**$ 2,092,752,000**	**$ 2,092,752,000**	**$ 2,092,752,000**	**$ 2,092,752,000**
Quarterly Distribution Plant	$ 4,126,222,555	$ 4,174,280,437	$ 4,227,434,237	$ 4,284,075,232
Quarterly Accumulated Depreciation	$ 1,460,510,038	$ 1,464,795,968	$ 1,475,706,277	$ 1,478,930,754
Net Distribution Plant	**$ 2,665,712,517**	**$ 2,709,484,469**	**$ 2,751,727,960**	**$ 2,805,144,478**
Change in Distribution Net Plant	**$ 572,960,517**	**$ 616,732,469**	**$ 658,975,960**	**$ 712,392,478**

The $4,284,075,232 December 2015 Distribution Plant in the above table agrees with the Ohio Power Distribution Plant amount in the FERC Form 1.

FERC Form Validation

The DIR is updated quarterly based on the incremental increase in the net plant balance as shown on the FERC Form 3Q and Form 1. Blue Ridge compared the gross plant and accumulated

[53] Net Distribution Plant is Gross Plant less the Accumulated Reserve for Depreciation.
[54] August 31, 2010 was the date certain in the Company's most recent distribution base case (Case No. 11-351-EL-AIR).
[55] AEP Ohio response to 2013 Data Request 2-004.
[56] AEP Ohio response to 2013 Data Request 1-015, 2-005, 2016 Data Request 1-024, and Case No. 11-351-EL-AIR, Order dated 12/14/11 approving the Settlement dated 11/21/11, Attachment D.
[57] AEP Ohio response to Data Request 8-001.
[58] Case No. 11-351-EL-AIR, et al., Order dated December 14, 2011, Settlement Attachment A, pages 2 and 5.
[59] WP BR-INT-1-002 Attachment 4 – DIR Verification and Adjustment.

depreciation amounts in the DIR filing to the FERC Forms 1 and 3Q for Distribution Plant. The amounts agree without exceptions.

Work Order Detailed Transactional Testing

The Company provided a list of 21,413 work orders that support gross plant in service included in the DIR from January 1, 2015 through December 31, 2015. From this list, Blue Ridge selected work orders for transactional testing using the probability-proportional-to-size (PPS) sampling technique,[60] a statistically valid sampling technique that would allow conclusions to be drawn in regard to the total population. Additional work orders were selected based on professional judgment.

The Company provided descriptions of the projects included in the work order sample. In general, the projects may be categorized based on the following types of additions, replacements, adjustments, and transfers.

1. Installation of underground and overhead conduit, conductors, and devices
2. Meters
3. Station equipment
4. Street lighting
5. Poles, Towers and Fixtures, Land Acquisition or transfers Services
6. Line Transformers
7. Reclassification of Completed Construction not classified to Utility Plant in-service

The following areas were the determined focus for transactional testing review:

- Project descriptions to determine exclusions from the DIR
- Project justifications
- Project actual versus budgeted cost
- Variance explanations
- Reasonableness of the actual in-service dates in comparison to the estimated in-service dates
- Proper charge of the actual detailed cost to the proper FERC account
- AFUDC charge on the work order (and if so, was it appropriate)
- Timeliness of recording of asset retirements for replacement work orders
- Appropriate charge of cost of removal and salvage, if applicable

To satisfy these areas of focused review, Blue Ridge formulated the objective criteria into ten transactional testing steps, labeled T1 through T10.[61] Blue Ridge's observations and findings against the criteria follow:

T1: The work is appropriately includable in the DIR; the DIR includes plant in service associated with distribution net investment associated with FERC Plant Accounts 360-373

T1a: Exclusion of Plant Held for Future Use

T1b: Exclusion of gridSMART II Net Plant Adjustment (recovered through GS Rider); review project descriptions for to determine that those descriptions exclude any discussion of AMI, Smart Grid or Smart Current

T1c: Exclusion of Incremental Vegetation Management Net Plant

[60] BRCS AEP 2015 DIR Audit Work Order Testing Matrix.
[61] BRCS AEP 2015 DIR Audit Work Order Testing Matrix.

T2: Work order package contains the project approval documentation, or work order was approved at the project level
T3: For specific work orders (i.e., not a blanket or for multi-year projects, such as pole and meter replacements), the work order package contains project justification
T4: Project costs are within the approved budget; explanations and approval for cost overruns +/- 15% of budget were provided
T5: Cost detail in Power Plant supports the work order charge, and the categories of cost are reasonable
T6: Project detail indicates assets were retired and costs are incurred for cost of removal and salvage; if applicable, complete T6a and T6b
  T6a: Replacement work orders: the date assets were retired, cost of removal date, and date of replacement asset in service are in line
  T6b: Replacement work orders: cost of removal has been appropriately charged
T7: Following completion of the work, the work order was closed out to the proper FERC 300 account(s)
T8: Actual in service date is in line with the estimate (at or before)
T9: The work order in service and closed to EPIS within a reasonable time frame from project completion; if not, AFUDC was stopped
T10: For work performed in 2015, this project is a candidate for field verification to determine if it is used and useful

The results of the detailed transaction testing performed on the work order sample are included in the workpapers.[62] Specific observations and findings about the testing are listed below.

T1: The work is appropriately includable in Rider DIR. Rider DIR includes plant in service associated with distribution net investment associated with FERC Plant Accounts 360-373

Blue Ridge found that the work tested was properly includable in the DIR. All work represents Distribution in FERC accounts 360-373 (Distribution and Street Lights). However, certain costs included in the work orders/projects should be excluded and those costs are discussed in testing step T5.

T1a: Exclusion of Plant Held for Future Use

Blue Ridge found that the work order sample did not contain any work orders or costs associated with Plant Held For Future Use and that all work contained in the work order sample appeared to be used and useful.

T1b: Exclusion of gridSMART II Net Plant Adjustment (recovered through GS Rider). Review project descriptions for to determine that those descriptions exclude any discussion of AMI, Smart Grid or Smart Current

Blue Ridge found that the sample did not include any identified gridSMART work orders.[63] In addition, Blue Ridge reviewed the project description for each FERC account 370 (meters) work order to confirm that all gridSMART phase II work orders were excluded from the DIR. While verifying, Blue Ridge found the following gridSMART work order within the population and not listed as any of the 417 excluded gridSMART work orders: W0023969: AMI Meter Blanket Purchase

[62] BRCS AEP 2015 DIR Audit Work Order Testing Matrix.
[63] AEP Ohio's response to Data Request BR-INT-1-038 Attachment 1 and WP BR-INT-1-038 – Exclusions.xlsx.

Non Project AMI Meters Install and Retirement/Removal non-project AMI meters—$155,149.98.[64] After further review, it was determined that the work order is a blanket work order for the replacement of AMI meters that were installed under gridSMART Phase 1. As the gridSMART Phase 1 project has been completed and the costs will be transferred to the DIR, it is appropriate that these costs be included within the DIR.

Further discussion related to gridSMART costs is included in testing step T5.

T1c: Exclusion of Incremental Vegetation Management Net Plant

The Company provided a list of three vegetation management work orders that have been excluded from the DIR. Blue Ridge reviewed the project description for each FERC account 365 work order to confirm that all Incremental Vegetation Management work orders were excluded from the Rider DIR. Blue Ridge identified work order W0024410: Ohio Ash Tree Mitigation for $2,573,941.05 that resulted in further review. It was determined that the work order is part of the "Forestry – Emerald Ash Borer Mitigation Ash Tree" project included within the 2015 DIR Plan[65] and is appropriate for inclusion in the DIR.

T2: Work order package contains the project approval documentation, or work order was approved at the project level

Blue Ridge reviewed the work orders in the sample to determine whether the work order package contained the appropriate project approval(s). The Company does not approve individual work orders.[66] Most distribution work funding is approved at a program or higher level. The Company's distribution work is performed through blanket or annual budgeted project/work orders. These work orders are part of a group of work the Company executes routinely on an annual basis or even over multiple years. Project work is normally performed using a series of work orders. Costs are managed to an overall budget.[67] While one funding project is approved each year, the scope of work may cover more than one budget year.[68] The work is generally performed on a series of work orders and work releases. Monitoring is done on each work order, but the costs are managed to the overall project/program budget.[69]

Blue Ridge reviewed the project approval documentation and found several instances where the documentation was incomplete for both blanket and specific work orders, therefore making the Company's PRA (probabilistic risk assessment) process not complete.[70] Even though management uses a Lotus Notes® database approval process, the actual document was not signed nor was it indicated that the approval process was used. Therefore, we could not determine in certain instances if senior management had signed off on the project.

Blue Ridge recommends that, if a Lotus Notes® database is going to be used by management to approve projects, a form be attached to the project documentation to support the approval, providing an audit trail.

T3: For specific work orders (i.e., not a blanket or for multi-year projects, such as pole and meter replacements), the work order package contains project justification

[64] WP BR-INT-1-038 – Exlcusions.xlsx (tab: GS vs Population)
[65] AEP Ohio's response to Data Request BR-INT-1-018, Attachment 1.
[66] AEP Ohio 2012 response to Data Request 4-001b.
[67] AEP Ohio 2012 CONFIDENTIAL response to Data Request 4-001, attachment 8.
[68] AEP Ohio 2012 CONFIDENTIAL response to Data Request 4-001, attachment 9.
[69] AEP Ohio 2012 CONFIDENTIAL response to Data Request 4-001 and attachments 8 and 9.
[70] AEP Ohio response to Data Request 2.001 Attachment 2, and 4.010 and 4.012 Attachments.

Blue Ridge reviewed work orders in the sample to determine whether the work order package contained the appropriate project justification. Blue Ridge found all sample project work orders included justifications that were not unreasonable.[71] Specific work orders, unless mandated, generally have a defined scope, estimated start/stop dates, and detailed explanations to support the project.[72]

T4: Project costs are within the approved budget; explanations and approval for cost overruns +/- 15% of budget were provided

Blue Ridge's review included an analysis of whether work orders in the sample were within +/- 15% of their approved budget. Blue Ridge asked the Company twice[73] to provide budget and actual costs with explanations for variances of +/-15%. The Company provided variance data on only 9 of the 51 work orders in the sample when responding to the first request and no additional variance data on work orders in the second request. Blue Ridge found that, in regard to the nine work orders, four of them were under budget by greater than 15%, one was over budget by greater than 15%, and four were within 15% of their budget.[74]

When reviewing other material Blue Ridge was able to note that several of the work orders had revisions to their estimates, but no documentation was provided for those revisions.[75]

Because of the lack of adequate response to requested data, Blue Ridge is unable to conclude whether the Company is managing project costs in a reasonable manner on behalf of the ratepayer and if cost overruns are adequately documented and approved. Blue Ridge recommends that the Company be required to provide the Commission information on the work orders in the sample selection that are greater than 15% over budget. That information should provide the detailed reason the work order was over budget. If a change order or estimate revision was initiated that increased the original estimate, the Company should provide that change documentation along with all necessary management approvals.

T5: Cost detail in Power Plant supports the work order charge, and the categories of cost are reasonable

Blue Ridge determined that, except as noted below, the costs recorded in PowerPlant support the work order charge, and the categories of cost are not unreasonable.

Several work orders in the sample contained the following cost elements totaling approximately $63,000.[76]

5. Cost Element 141: Incentive Accrual Dept. Level—used to record Distribution, Customer Operations and Regulatory Services Incentive Plan expense.
6. Cost Element 145: Stock-based compensation—used to record Performance Share Incentive expense.
7. Cost Element 154: Restricted Stock Incentives—used to record Restricted Stock Unit Expense.

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[71] AEP Ohio 2012 response to Data Request 4.001 Attachments 1 through 4.
[72] AEP Ohio 2012, CONFIDENTIAL response to Data Request 4-001, attachment 9.
[73] AEP Ohio response to data request BR-INT-2-001b,iii, BR-INT-2-001 Attachment 3, and BR-INT-4-009.
[74] AEP Ohio response to data request BR-INT-2-001 Attachment 3.
[75] AEP Ohio response to data request BR-INT-2-001 Attachment 2, BR-INT-7-009 Attachment 1 and BRCS AEP 2015 DIR Audit Work Order Testing Matrix.
[76] WP BR-INT-2-001 Attachment 8 (to Remove Certain Cost Elements from DIR).

8. Cost Element 155: Transmission Incentives—used to record Transmission Incentive Plant expense.

The Company has indicated that those cost elements, among others, represent a portion of the Company's actual cost of labor and prudent expenses necessary to pay AEP employees for work performed on the DIR project.[77] However, Blue Ridge does not consider these costs as either payroll, payroll related, or an appropriate overhead cost that benefits the project(s) and, therefore, recommends that these costs be removed from the DIR. Blue Ridge also recommends that the Company review the cost detail for the total population of work orders included in the DIR and remove the costs of these four identified cost elements from the DIR. The Company failed to demonstrate how these costs directly benefit the DIR or have not been considered elsewhere in an overhead allocation.

The Company regularly buys and sells meters from and to affiliated AEP companies. Those transactions are executed at net book value. Meters purchased are booked at net book value using a current year vintage. The system allows the Company to sell meters rather than scrap them.[78] This process is not unreasonable, and selling meters will generally yield more return to the Company then scrapping them as long as the proceeds are recorded to the depreciation reserve in the same manner as a scrap sale. Blue Ridge asked several questions surrounding the purchase of meters since some of those transactions appear in the work order sample. Regarding certain questions, the Company responses did not specifically address the questions asked.

- Work Order 7900299—OPCO Purchase Meters & Capitalize initial installation costs for $669,609.00. Blue Ridge asked, among other things, if the purchase of the meters from an affiliate was the lowest cost alternative for the Company and to provide support for that determination. The Company cited the affiliated transaction agreement and the accounting for the transaction but did not address whether this type of transaction is the lowest cost alternative for the Company.[79] Blue Ridge recommends that the Company demonstrate to the Commission that the purchase of meters from AEP affiliates represents the lowest cost alternative to the Company.
- Work Order 7900299 OPCO Purchase Meters & Capitalize initial installation costs. The cost detail provided by the Company indicates that 4955 meters were purchased at a total cost of $5,924,249 or $1,195 per meter. Blue Ridge asked the Company to provide the actual meter cost without the capitalized labor or other installation costs. The Company responded by providing three separate work orders for meter purchases that included labor and then provided an average cost for the three work orders of $215.13. This response does not address the question concerning the actual cost of the 4955 meters. Therefore, Blue Ridge was unable to determine whether those costs were reasonable compared to the average meter costs.[80] Blue Ridge recommends that the Company provide to the Commission a comparison of the actual meter costs for the 4955 meters purchased with other similar meter type costs, supporting the fact that this purchase was in line with other similar purchases.[81]

T6: Project detail indicates that assets were retired and costs are incurred for cost of removal and salvage; if applicable, complete T6a and T6b

[77] AEP Ohio response to Data Request BR-INT-7-024.
[78] AEP Ohio response to Data Request BR-INT-7-024.
[79] AEP Ohio response to Data Request BR-INT-7-018
[80] AEP Ohio response to Data Requests BR-INT-7-017 and 1-032.
[81] AEP Ohio response to Data Request BR-INT-7-018.

Blue Ridge found that, for replacement work orders, assets were retired and cost of removal was charged. In some cases the Company records salvage for the sale or scrap value of assets. When equipment is sold for other than scrap, the proceeds are charged to the accumulated reserve for depreciation.[82]

The process for recording scrap and equipment sales is common in the utility industry and the end result conforms to FERC accounting requirements. Additional comments related to retirements and costs of removal are included in T6a and T6b below.

T6a: Replacement work orders: the date assets were retired, cost of removal date, and date of replacement asset in service are in line

All assets that were retired were added to plant, the date assets were retired, and cost of removal charged was not unreasonable.

T6b: Replacement work orders: cost of removal has been appropriately charged

Blue Ridge found that there were no work orders in the sample with inappropriately charged cost of removal.[83]

T7: Following completion of the work, the work order was closed out to the proper FERC 300 account(s)

Blue Ridge found that all work orders were closed to the proper FERC accounts based on the description of the work being performed.[84]

T8: Actual in service date is in line with the estimate (at or before)

The Company does not track in-service dates.[85] An inactive work order report is used to track work orders that have not had any activity (charges) for six months.[86] The policy associated with the report is not unreasonable. As a result of this process, Blue Ridge performed alternative testing of the inactive work order report and found one work order from our sample contained in the report that was not in line with the estimated in-service dates.[87]

1. DCS0114392: 23654930-Change/Add Street Light. That work order was held open for 16 months and has been designated to close. The original in-service date was May 2015.

Blue Ridge also found that work orders on the 4th quarter 2015 inactive work order report totaled $5,197,930, net of credits, and were inactive from between 13 to 126 months. Most of the work orders on the inactive work order report had status comments that read "received." Among reasons for remaining open, explanations included "in process of being closed," "make ready" (either waiting for a customer to pay or other undetermined reason), "to be worked when crews are available," and "waiting on AT&T." Blue Ridge also noted that the report contained $(386,263.56) of work order credits, some or all of which could have reduced the DIR in 2015. The total of $5,197,930 of inactive work orders in the 4th quarter of 2015 is significant, even though

[82] AEP Ohio response to Data Request BR-INT-7-022 and AEP Ohio 2012, WP Work Order Testing Matrix (Confidential), T5.
[83] AEP 2015 DIR Audit Work Order Testing Matrix T6b.
[84] AEP 2015 DIR Audit Work Order Testing Matrix T7.
[85] AEP Ohio response to Data Request BR-INT-2-001.
[86] AEP Ohio response to Data Request BR-INT-1-047 Attachment 2, page 2.
[87] WP BR-INT-1-044 Attachment 1 (inactive work orders) and WP BR-INT-1-044 Attachment 2 (inactive work orders).

most of the work orders are small. The range of months those work orders have been inactive appears excessive.

Blue Ridge recommends the Company continue to monitor inactive work orders that appear on the report and strive to resolve outstanding issues within a reasonable time frame of six months.

T9: The work order in service and closed to EPIS within a reasonable time frame from project completion; if not, AFUDC was stopped

Blue Ridge found that all project work orders in the sample were closed to EPIS within a reasonable time frame from project completion except as noted below.

The following work orders were held open for greater than 90 days, and the Company failed to provide a response as to why those work orders were held open.

WO (A)	Project Title (B)	Majority of cost (C)	Majority Cost Month (D)	Entire Work order Cost (E)	In-Service Month (F)	% of (C) and (E)
42155738	EAST BROAD STREET: INSTALL 138/13.2 KV 50 MVA XFMR	$3,063,891.57	Jun-15	$3,089,239.08	Dec-15	99%
42156467	NEELYSVILLE STN DIST - INSTALL XFMR, BUS REGS & NEW CKT	$2,531,968.44	May-15	$2,587,137.64	Dec-15	98%
42195786	CORRIDOR: INSTALL A NEW 50 MVA 138/34.5 KVTRANSFR & 34.5KV C	$2,848,104.07	Jul-15	$2,853,020.73	Dec-15	100%
42290831	FRESH MARK 69KV REVENUE METERING (OP CO.-DISTRIBUTION)	$147,422.78	Jun-15	$113,274.91	Oct-15	123%
42293499	EAST SIDE LIMA: DIR 2014 IN-SERVICING ONLY WORK ORDER	$1,686,141.61	Mar-15	$1,687,011.19	Aug-15	100%
DOP0208758	52322262-ASSET IMPROVEMENT	$1,384,692.15	Jul-15	$1,387,751.93	Dec-15	100%

While the Company did explain the closing and unitization process for the work orders, that explanation did not address the question concerning why they were held open.[88] The Company's procedure is that work orders can be held open up to 90 days to capture additional charges before the reversal takes place from Completed Construction not Classified to Utility Plant in service.[89] While this process does not result in over or understatement of the DIR, Blue Ridge recommends that the Company adhere to its stated policy to not hold work orders open to collect additional charges past 90 days.

T10: For work performed in 2015, this project is a candidate for field verification to determine if it is used and useful

Blue Ridge identified five work orders within the sample as candidates for field visits.

Field Inspections

Blue Ridge selected five projects for field verification from the work order sample. The purpose of the field verification was to determine whether the assets have been installed per the work order scope and description and whether they are used and useful in rendering service to the customer. The work order/project selection criteria were assets that can be physically seen and were installed within the scope period of this review. Experienced staff from the Public Utilities Commission of Ohio, with assistance from AEP Ohio representatives, conducted the field verifications during the week of July 18–22, 2016. Staff was provided with information for each work order/project and completed a standard questionnaire developed by Blue Ridge for each

[88] AEP Ohio response to Data Request BR-INT-7-021.
[89] AEP Ohio response to data request BR-INT-1-047.

location. Where possible, Staff took pictures of the installed assets. The completed questionnaires and pictures are included as workpapers with this report.

The following projects were field inspected:

1. Work order W0025272 – South Point Service Center – 10 Acres.[90] The final cost of the project was $1,494,404;[91] however, the authorized amount was only $1,074,567,[92] leaving a difference of $419,837 unauthorized. The in-service date was November 11, 2015.[93]
2. Work order 42161717 – Oakland: Install 20 MVA Transformer and 3rd 12kV Circuit (Component Number [PVID] 38953).[94] The final cost of the project was $3,041,087[95] and under the total authorized amount. The in-service date was December 31, 2015.
3. Work order 42155738 – East Broad Street: Install 138/13.2kV 50 MVA XFMR. The 138/40/13 kV transformers at East Broad Station are transmission assets that serve the 40 kV sub transmission system. Distribution loading is limited to 50% of the combined XF#1 & XF#2 capacity. A recent transmission planning study indicated the need to further reduce distributions-allocated capacity. In 2015 it is projected the distribution load would reach 96% of its allowed transmission asset capacity. The proposed project will use the recently abandoned AT&T substation site adjacent to East Broad station, to install a distribution-owned 50 MVA 138/13.2 kV transformer (XF#3). The newly installed transformer (XF#3) will be used to serve existing four distribution circuits. The proposed circuits are F-1405, F- 1407, F-1408, and F-1409. Approximately 25 MVA of load will be alleviated from XF#1 & XF#2, thus providing ample capacity for the projected future growth in the area.[96] The final cost of the project was $3,090,833[97] and under the total authorized amount. The in-service date was December 31, 2015.
4. Work order 42156467 – Neelysville STN DIST – Install, SFMR, BUS REGS & New CKT.[98] The final cost of the project was $2,591,234.83[99] and was under the total authorized amount. The in-service date was December 31, 2015.
5. Work order DOP0236897 – 57851446-18th Street Bridge Duct and Manhole Installation.[100] The final cost of the project was $839,167,[101] which was $2,185,148 under the authorized amount of $3,024,315.[102] The Company did not provide any breakdown of the direct cost (labor, material, equipment, etc.).[103] During the field observation, the engineers were unable to see the entire asset but nevertheless were able to conclude that the project is used and useful.

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[90] No project description was provided by the Company.
[91] AEP Ohio response to data request BR-INT-1-001 Attachments (Activity Cost).
[92] AEP Ohio response to data request BR-INT-2-001 Attachment 4, page 21 and BR-INT-6-001 Attachment 6.
[93] AEP Ohio response to data request BR-INT-7-014 Attachment 1, page 9.
[94] No project description was provided by the Company.
[95] AEP Ohio response to data request BR-INT-6-001 Attachment 6.
[96] AEP Ohio response to data request BR-INT-2-001 Attachment 2, page 41.
[97] AEP Ohio response to data request BR-INT-6-001 Attachment 6.
[98] No project description was provided by the Company.
[99] AEP Ohio response to data request BR-INT-6-001 Attachment 6.
[100] No project description was provided by the Company.
[101] AEP Ohio response to data request BR-INT-1-001 Attachments.
[102] AEP Ohio response to data request BR-INT-2-001 Attachment 2, page 62.
[103] AEP Ohio response to data request BR-INT-6-001 Attachment 6.

The five projects selected for field verification confirmed that the assets were installed and used and useful.[104]

Backlog

Blue Ridge reviewed the Company's backlog for unitization and found that the Company does not track backlogged work orders.[105] The Company process states that after the work is complete and entered in the PowerPlant software, the Company will keep the work order active for a period of 90 days to ensure that all charges are applied before the work order is closed.[106] The delay in unitization allows any late invoices to be included in the project cost since, once the status is changed, it is no longer possible to post charges to the work order. Any trailing charges (if material) would need to be processed by opening a new work order.[107] Blue Ridge was unable to assess whether the Company has excessive backlog in unitization.

Insurance Recoveries

Blue Ridge reviewed the Company's insurance recoveries and found most recoveries are from vehicular or contractor equipment damage. Although there were a large number of claims, the individual dollar amounts in most instances were small.[108] The Company management procedures for claims[109] are not unreasonable, and recovered money is appropriately applied to the work order that repairs the damage. There was no indication that the insurance recoveries were not applied appropriately causing the DIR to be misstated.

Conclusion

In summary, Blue Ridge found several instances in its work order detailed transaction testing that indicate there may be costs included within the DIR that should be excluded. These included (1) amounts associated with vegetation management and gridSMART work orders that were not excluded, (2) inclusion of cost elements that are not an appropriate overhead charge for distribution plant, and (3) meters purchased from an affiliate without demonstration that the amount is the lowest cost alternative to the Company. There were also several instances of procedural inconsistencies that should be addressed.

Exclusions From DIR

The Commission ordered that capital additions recovered through other Commission-authorized riders be identified and excluded from the DIR Rider. The Company's tariff includes other riders as shown in the following list.[110]

1) Interruptible Power Rider
2) Universal Service Fund Rider
3) Bad Debt Rider
4) KWH Tax Rider
5) Residential Distribution Credit Rider
6) Pilot Throughput Balancing Adjustment Rider
7) Deferred Asset Phase-In Rider

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[104] See Field Observation Folder.
[105] AEP Ohio response to data request BR-INT-1-047.
[106] AEP Ohio response to data request BR-INT-1-047 Attachment 2, page 2.
[107] AEP Ohio response to data request BR-INT-1-047 Attachment 2, page 2.
[108] AEP Ohio response to data request BR-INT-1-049 Attachment 1.
[109] AEP Ohio response to data request BR-INT-1-050.
[110] AEP Ohio response to Data Request 1-037.

8) Generation Energy Rider
9) Generation Capacity Rider
10) Auction Cost Reconciliation Rider
11) Electronic Transfer Rider
12) Power Purchase Agreement Rider
13) Basic Transmission Cost Rider
14) Transmission Cost Recovery Rider
15) Transmission Under-Recovery Rider
16) Pilot Demand Response Rider
17) Energy Efficiency and Peak Demand Reduction Cost Recovery Rider
18) Economic Development Cost Recovery Rider
19) Enhanced Service Reliability Rider
20) gridSMART® Phase 1 Rider
21) gridSMART® Phase 2 Rider
22) Retail Stability Rider
23) Renewable Energy Technology Program Rider
24) Distribution Investment Rider
25) Storm Damage Recovery Rider
26) Alternative Energy Rider
27) Phase-In Recovery Rider
28) Fixed Cost Rider
29) Auction Phase-In Rider

Blue Ridge reviewed each rider and determined that the gridSMART and Enhanced Service Reliability Riders are the only riders that include distribution plant that should be removed from the DIR to avoid double counting. Both of the riders germane to the exclusion criterion are discussed below.

Enhanced Service Reliability Rider (ESRR) – Vegetation Management

The Enhanced Service Reliability Rider (ESRR) includes the vegetation management expenditures associated with the transition from a performance-based reactive program to a five-year proactive, cycle-based trimming program. Under the program, trees and other vegetation along the Company's circuits are to be trimmed end-to-end every four years, right-of-ways widened, and danger trees removed, among other directives. The program was expected to be complete in 2014.[111] In Case No. 13-2385-EL-SSO, the Company requested and the Commission approved the continuation of the ESRR in order to complete the transition to a cycle-based vegetation management program through 2018.[112]

A unique project ID and work order combination identify the vegetation management program. The plant values for these assets are identified on a dollars-spent basis, and an allocation is conducted in order to remove only the incremental plant, as agreed to by the Company and Staff. This methodology is in line with the vegetation management rider to ensure that there is no double recovery of these assets.[113]

With the extension of the DIR in Case No. 13-2385-EL-SSO, the Commission approved Staff's recommendation that the Company file the plant in service that is being recorded and recovered in

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[111] Case No. 11-346-EL-SSO, et. A., Order dated 8/8/13, page 64.
[112] Case No. 13-2385-EL-SSO, Opinion and Order dated February 25, 2015, pages47-49.
[113] AEP Ohio response to Data Request 1-039.

the ESRR within the DIR filing. The information is to be provided by plant account and subaccount to allow Staff to ensure that no plant-in-service costs related to the ESRR is being recovered in the DIR. The Company implemented Staff's recommendation beginning with the filings for the September 2015 plant balances.[114]

Blue Ridge reviewed the workpapers provided in the DIR filings for the September and December 2015 plant balances. The workpapers list the capital spend from January 2009 totals by month but do not provide the information by plant account and subaccount. Blue Ridge recommends that the Company provide the plant account and subaccount information requested by Staff and approved by the Commission.

The total amounts included on the workpapers for ESRR agree with the amounts shown as excluded within the DIR. However, as mentioned previously, there is a timing difference between DIR and the ESRR filings that will make it very difficult for future auditors to reconcile the recovery of plant between the ESRR and the DIR. Blue Ridge recommends that the Company provide a reconciliation in future filings comparing the plant recovered in ESRR with the amount shown excluded from the DIR.

The Company excluded the following amounts for vegetation capital spend in the DIR that was recovered through the ESSR.

Table 6: Net Plant Vegetation Management Excluded from DIR by Filing

Period	Amount Excluded
1st Quarter 2015	$ 30,393,710
2nd Quarter 2015	$ 30,044,529
3rd Quarter 2015	$ 30,054,689
4th Quarter 2015	$ 30,252,557

As previously discussed, Blue Ridge's transactional testing included a task to determine whether vegetation management charges were excluded from the DIR net plant investment.[115] Specifically, Blue Ridge reviewed the work order descriptions, associated project descriptions, and the FERC accounting to determine the nature of the work. Additional information was obtained to clarify projects and type of work being performed. The PowerPlant data extract query used to identify exclusions from the DIR was reviewed, as were the results provided within the DIR filings. Blue Ridge reviewed the sample work order description and the FERC accounts charged for any reference to vegetation management. Blue Ridge identified work order W0024410: Ohio Ash Tree Mitigation for $2,573,941.05 that resulted in further review. It was determined that the work order is part of the "Forestry – Emerald Ash Borer Mitigation Ash Tree" project included within the 2015 DIR Plan[116] and is appropriate for inclusion in the DIR..

GridSMART

The Commission ordered that the DIR mechanism not include any gridSMART costs.[117] The gridSMART projects are separate from the DIR and are recovered through the gridSMART rider.

The Company stated that costs related to the gridSMART rider are specifically identified by Project ID and Work Order. These work orders are removed from the DIR through a query from the

[114] AEP Ohio response to Data Request 8-001.
[115] BRCS AEP 2015 DIR Audit Workorder Testing Matrix, T1c – Review work order to determine if the work is related to Vegetation Management. If it is, are the costs excluded from the DIR?
[116] AEP Ohio's response to Data Request BR-INT-1-018, Attachment 1.
[117] Case No. 11-346-EL-SSO, et al., Order dated August 8, 2012, page 46.

Company's owned asset system, which identifies the net book value to be removed associated with the Company's gridSMART rider.[118]

The Company stated that there was no capital gridSMART spend in January 2015 through December 2015.[119] All meters purchased in 2015 were for non-gridSMART purposes. GridSMART Phase I meters were completed in June 2010. The Company purchases AMI meters to replace Phase I meters that may fail but has not purchased any AMI meters for gridSMART purposes and will not until the pending stipulation of Phase II is approved.[120]

Similar to the ESRR, with the extension of the DIR in Case No. 13-2385-EL-SSO, the Commission approved Staff's recommendation that the Company file the plant in service that is being recorded and recovered in the gridSMART rider within the DIR filing. The information is to be provided by plant account and subaccount to allow Staff to ensure that no plant-in-service costs related to the gridSMART rider are being recovered in the DIR. The Company implemented Staff's recommendation beginning with the filings for the September 2015 plant balances.[121]

Blue Ridge reviewed the workpapers provided in the DIR filings for the September and December 2015 plant balances. The workpapers list the net book value of the gridSMART assets by FERC account number. The total net book values agree with the amounts shown as excluded within the DIR. However, as mentioned previously, there is a timing difference between DIR and the gridSMART filings that will make it very difficult for future auditors to reconcile the recovery of plant between the gridSMART and the DIR. Blue Ridge recommends that the Company provide a reconciliation in future filings comparing the plant recovered in gridSMART with the amount excluded from the DIR.

The Company excluded the following amounts for gridSMART from the DIR.

Table 7: gridSMART Net Plant Excluded from DIR by Filing

Period	Amount Excluded
1st Quarter 2015	$ 19,067,018
2nd Quarter 2015	$ 18,625,198
3rd Quarter 2015	$ 18,199,441
4th Quarter 2015	$ 17,667,211

In Case No. 13-2385-EL-SSO, as part of the Commission's extension of the DIR, the Commission approved the Company's request to include gridSMART Phase 1 capital costs in the DIR. The transfer will occur in a future DIR filing after the Commission reviews and reconciles the accounting of the gridSMART Phase I capital costs and the Company's accounting for all USDOE reimbursements.

As previously discussed, Blue Ridge's transactional testing included a task to determine whether gridSMART charges were excluded from the DIR net plant investment.[122] Blue Ridge found the following gridSMART work order within the population and not listed as any of the 417 excluded gridSMART work orders: W0023969: AMI Meter Blanket Purchase Non Project AMI

[118] AEP Ohio response to Data Request 1-039.
[119] AEP Ohio response to Data Request 1-038.
[120] AEP Ohio response to Data Request 1-034.
[121] AEP Ohio response to Data Request 8-001.
[122] BRCS AEP 2015 DIR Audit Workorder Testing Matrix, T1c – Review work order to determine if the work is related to Vegetation Management. If it is, are the costs excluded from the DIR?

Meters Install and Retirement/Removal non project AMI meters—$155,149.98.[123] After further review, it was determined that the work order is a blanket work order for the replacement of AMI meters that were installed under gridSMART Phase 1. As the gridSMART Phase 1 project has been completed and the costs will be transferred to the DIR, it is appropriate that these costs be included within the DIR.

Conclusion

In summary, Blue Ridge found the Company excluded capital additions recovered through other Commission-authorized riders from the DIR.

Accumulated Deferred Income Tax

The Commission ordered that the DIR mechanism account for accumulated deferred income tax (ADIT) offset. The Commission found that it is not appropriate to establish the DIR rate mechanism in a manner that provides the Company with the benefit of ratepayer supplied funds. Any benefit resulting from ADIT should be reflected in the DIR revenue requirement.[124]

The DIR revenue requirement includes ADIT related to utility property of the distribution function.[125] The source of the data is the Company's utility property ADIT (Account 2821001) as reported in its balance sheet.[126] Blue Ridge reviewed the list of ADIT balances provided by the Company in Account 282[127] and found them not unreasonable.

The Tax Increase Prevention Act of 2014 extended the 50% bonus tax depreciation for qualified property placed into service before January 1, 2015. The Protecting Americans from Tax Hikes Act of 2015 further extended the 50% bonus tax depreciation for qualified property placed in service during 2015, 2016, and 2017. The Company claimed bonus tax deprecation on all eligible property placed in service. This bonus tax depreciation is reflected in the ADIT balances.[128]

The amount included is the incremental amount from date certain, August 31, 2010, as shown in the following table.

Table 8: Incremental ADIT Removed

Period	ADIT Amount	Incremental ADIT Offset
Date Certain 8/31/2010	$ 328,328,000	
1st Quarter 2015	$ 592,898,707	$ 264,570,707
2nd Quarter 2015	$ 599,848,389	$ 271,520,389
3rd Quarter 2015	$ 606,641,993	$ 278,313,993
4th Quarter 2015	$ 653,437,064	$ 325,109,064

Blue Ridge found that the incremental ADIT was appropriately excluded from the change in Distribution Plant before applying the return component of the carrying charge.

[123] WP BR-INT-1-038 – Exlcusions.xlsx (tab: GS vs Population).
[124] Case No. 11-346-EL-SSO, et al., Order dated August 8, 2012, page 47.
[125] AEP Ohio response to Data Request 1-027.
[126] Blue Ridge's Report dated June 19, 2013, titled "Compliance Audit of 2012 Distribution Investment Rider (DIR) of Columbus Southern Power and Ohio Power Company d/b/a AEP Ohio," page 42.
[127] AEP Ohio response to Data Request 1-026.
[128] AEP Ohio response to Data Request 1-028.

Carrying Charge Rate

The carrying charge rate includes elements to allow the Company an opportunity to recover property taxes and commercial activity tax and earn a return on (and associated income taxes) plant in service associated with distribution net investment. The Company's first quarter 2015 filing included a composite carrying charge that was approved in the April 24, 2014, Opinion and Order in Case No. 13-419-EL-RDR.

For the June 2015 and subsequent DIR filings, the depreciation and property tax rates remained the same. However, the Commission reduced the return component in Case No. 13-2385-EL-SSO. The return, depreciation, and property tax components are no longer a composite rate, but are separate components in the DIR calculation. The following table summarizes the components for the carrying charge rate.

Table 9: Carrying Charge Rate - Components

Description	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Return - Pre-Tax WACC	10.96%	10.54%	10.54%	10.54%
Average Depreciation Rate	3.68%	3.68%	3.68%	3.68%
Weighted Average Property Tax	5.66%	5.66%	5.66%	5.66%
Commercial Activity Tax	0.26%	0.26%	0.26%	0.26%
Carrying Charge Rate	20.56%	20.14%	20.14%	20.14%

Pre-Tax Weighted Average Cost of Capital (WACC)

The carrying charge rate includes a pre-tax weighted average cost of capital (WACC). The Commission approved the capital structure and percentage cost for debt and common equity.[129] The return on equity was modified for the 2nd, 3rd, and 4th Quarter 2015 DIR filings.[130] The following tables show the derivation of the pre-tax WACC.

Table 10: Pre-Tax Weighted Average Cost of Capital by Filing

1st Quarter 2015

Description	% of Total Capital	Embedded Cost	Revenue Tax Conversion	Pre-Tax WACC
Long Term Debt	47.72%	5.46%	1.000000	2.61%
Common Stock	52.28%	10.20%	1.566344	8.35%
Total	100.00%			10.96%

2nd, 3rd and 4th Quarter 2015

Description	% of Total Capital	Embedded Cost	Revenue Tax Conversion	Pre-Tax WACC
Long Term Debt	52.54%	6.05%	1.000000	3.18%
Common Stock	47.56%	10.20%	1.385870	7.36%
Total	100.10%			10.54%

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[129] 1st Quarter 2015: Case No. 11-346-EL-SSO, Order dated 8/8/12, page 42. 2nd, 3rd, and 4th Quarter 2015: Case No. 13-2385-EL-SSO, pages 83-84.
[130] AEP Ohio response to Data Request 10-001.

The WACC is applied to the Adjusted Change in Distribution Plant to derive the return component of the Carrying Charge. Blue Ridge found that the amount is not unreasonable.

Average Depreciation Expense

The Company has used 3.68% for the depreciation rate component of the carrying charge rate. The rate is the combined Company's average distribution plant depreciation rate approved in the distribution rate case (No. 11-351-EL-AIR et al. Settlement).[131] The average depreciation expense is not unreasonable.

Weighted Average Property Tax

The carrying charge rate property tax component is based upon the property taxes from the test year data from the Company's Application in the base distribution case in Case No. 11-351-EL-AIR.[132] In the DIR filings under review in this audit, the Company used the property tax rate of 5.66%, consistent with prior DIR filings. Blue Ridge found the rate not unreasonable.

As previously discussed, beginning with the DIR filing for June 2015 plant balances, for the purpose of calculating property taxes, the depreciation reserve was adjusted to eliminate the cumulative amortization of the excess depreciation reserve since December 31, 2011 (when rates in Case Nos 11-351-EL-AIR and 11-352-EL-AIR went into effect). The Company made this modification to the property tax calculation.

Commercial Activity Tax

The Company used the statutory rate of 0.26% for the Commercial Activity Tax included within the carrying charge rate. Blue Ridge found the rate not unreasonable.

Conclusion

In summary, Blue Ridge found that the carrying charge rate is not unreasonable.

REVENUE OFFSET

The Commission ordered that the DIR revenue requirement be increased to reflect a $62.344 million revenue credit included in the November 23, 2011, distribution case settlement.[133] The revenue credit will prevent excess collection of distribution revenue associated with collections from the DIR.[134] At the time the distribution case was settled, the Company had a pending proceeding that included a DIR mechanism. The credit is derived from subtracting $23.656 million of DIR revenue related to certain post-date distribution investments, actual and estimated through December 2012, from the $86 million DIR cap for 2012 in the ESP II Stipulation.[135]

The $62.344 million provided the mechanism to recover a portion of distribution costs that the Company incurred during the test year in the base rate case. The Company argued, "Failure to adjust the DIR to reflect the revenue credit in the distribution case would deprive the Company an opportunity to recover costs prudently incurred during the test year."[136]

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131 Case No. 11-351-EL-AIR, Settlement dated November 21, 2011, Attachment D.
132 Blue Ridge's Report dated June 19, 2013, titled "Compliance Audit of 2012 Distribution Investment Rider (DIR) of Columbus Southern Power and Ohio Power Company d/b/a AEP Ohio," page 45..
133 Case No. 11-346-EL-SSO, et al., Order dated 8/8/12, page 43.
134 Case No. 11-351-EL-AIR, et al., Order dated 12/14/11, page 5.
135 Case No. 11-351-EL-AIR, et al., Order dated 12/14/11, page 5, item (g).
136 Case No. 11-346-EL-SSO, et al., Direct Testimony of William A. Allen, page 11, lines 3-5.

Blue Ridge found that the Company appropriately increased the DIR revenue requirement by the $62.344 million revenue credit included in the distribution case settlement in Case No. 11-351-EL-AIR.

Annual Cap and Over/Under Recovery

Annual Cap

In Case No. 11-346-EL-SSO, the recovery on the DIR was capped at $86 million in 2012, $104 million for 2013, $124 million for 2014, and $51.7 million for the period January 1 through May 31, 2015, for a total of $365.7 million. The DIR was to expire on May 31, 2015.[137] In a Second Entry on Rehearing in Case No. 13-2385-EL-SSO, the Commission authorized revenue caps for the DIR to be set at $145 million for 2015 (including amounts previously authorized in the *ESP 2 Case*), $165 million for 2016, $185 million for 2017, and $86 million for January through May 2018.[138]

For any year that the Company's investment would result in revenues collected which exceed the cap, the overage would be recovered and be subject to the cap in the subsequent period. Symmetrically, for any year that the revenue collected under the DIR is less than the annual cap allowance, the difference shall be applied to increase the cap for the subsequent period.[139] The over/under recovery balance from the previous quarter is added or subtracted to get the fully adjusted revenue requirement.

Blue Ridge found that the Company did not exceed the $145 million cap for 2015 when adjusted for the over/under recovery for previous years. The annual cap under recovery to be carried forward is $22,657,671 as shown in the following table:

Table 11: Rider DIR Annual Cap (Over) / Under Recovery

Period	Annual Cap	Cap Adjusted with (Over)/Under	Revenue Requirement	(Over)/Under
2012	$ 35,833,333	$ 35,833,333	$ 29,131,148	$ 6,702,185
2013	$ 104,000,000	$ 110,702,185	$ 87,203,726	$23,498,459
2014	$ 124,000,000	$ 147,498,459	$120,575,764	$26,922,695
2015	$ 145,000,000	$ 171,922,695	$149,265,024	$22,657,671

Note: 2012 Annual Cap of $86 million prorated for August through December

Of note in future DIR filings, after the Commission has reviewed and reconciled the gridSMART Phase I costs, the Company may transfer the approved capital costs balance into the DIR. These transferred gridSMART Phase 1 costs will not be subject to the DIR caps.[140]

DIR Costs vs. Amount Billed Under/Over Recovery

The Company also calculates the amounts over collected or under collected. The Company compares the DIR revenue requirement to the DIR revenue billed[141] through the same time period. The revenue requirement is figured monthly through a run of the DIR calculation based on DIR

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137 Case No. 11-346-EL-SSO, et al., Order dated August 8, 2012, page 43.
138 Case No. 13-2385-EL-SSO, et al., Second Entry on Rehearing dated May 28, 2015, page 24.
139 Case No. 11-346-EL-SSO, et al., Order dated August 8, 2012, page 43.
140 Case No. 13-2385-EL-SSO, Opinion and Order dated February 25, 2015, page 52.
141 The Company assumes for purposes of the DIR calculation that Billed DIR amounts equal revenues received.

plant added each month. Any difference is shown as an over or under recovery and the rate is adjusted quarterly.[142] The 2015 and since-inception DIR costs as compared to the DIR Billed shows an under recovery as presented in the following table:

Table 12: DIR Costs vs. DIR Billed - 2015 and Since Inception

Description	2015	Since Inception
DIR Costs	$ 149,265,024	$ 386,175,662
DIR Revenues Billed	$ 147,140,264	$ 368,255,652
Over / (Under) Billed	$ (2,124,760)	$ (17,920,010)

The DIR Costs used to calculate the under billing is based on the recognized earnings on the amount of the DIR investment beginning with its initial approval in Case No. 11-346-EL-SSO. The amount is based upon 1/12 of the annual revenue requirement calculated monthly based on a life-to-date balance of the previous month balance of distribution plant compared to the distribution net plant as of August 31, 2010.[143]

The DIR revenue is tracked as a separate billing rider and is obtained directly from the Company's billing system. The DIR revenue is based on the net distribution plant balances from the prior month since plant account balances are available on a one-month lag.[144]

Even though the DIR is filed and the tariff is calculated quarterly, the Company calculates the over or under billed based on a monthly change in revenue requirements. The Company explained that the Commission's true-up mechanism allows for recovery of actual costs based upon net distribution plant balances placed in service. The calculation is performed monthly to identify the net distribution plant balances as the investment is placed in service.[145]

Blue Ridge found that the Company's methodology for calculating the over or under billed for the DIR was not unreasonable.

Annual Base Distribution Revenue

The rider is collected as a percentage of base distribution revenue. The annual base distribution revenue for DIR filing for the four quarters in 2015 is provided in the following table.

Table 13: Annual Base Distribution Revenues in DIR by Quarter

Period	Amount
End of 2014	$ 635,183,418
1st Quarter 2015	$ 642,115,442
2nd Quarter 2015	$ 642,356,031
3rd Quarter 2015	$ 633,789,669
4th Quarter 2015	$ 633,702,536

142 Blue Ridge's Report dated June 19, 2013, titled "Compliance Audit of 2012 Distribution Investment Rider (DIR) of Columbus Southern Power and Ohio Power Company d/b/a AEP Ohio," pages 45-46.
143 Blue Ridge's Report dated June 19, 2013, titled "Compliance Audit of 2012 Distribution Investment Rider (DIR) of Columbus Southern Power and Ohio Power Company d/b/a AEP Ohio," page 46
144 Blue Ridge's Report dated June 19, 2013, titled "Compliance Audit of 2012 Distribution Investment Rider (DIR) of Columbus Southern Power and Ohio Power Company d/b/a AEP Ohio," page 46
145 Blue Ridge's Report dated June 19, 2013, titled "Compliance Audit of 2012 Distribution Investment Rider (DIR) of Columbus Southern Power and Ohio Power Company d/b/a AEP Ohio," page 46.

Annual base distribution revenues are obtained through the Company's billing system. The billing system tracks each charge by an equation code. The base distribution revenues are represented by a unique set of equation codes that allow them to be separately identified.[146] Blue Ridge compared the screen shots of the query used to determine the base distribution revenues through December 31, 2015,[147] to the amount included within the 4th Quarter DIR filing and found no exception.

Conclusion

In conclusion, the mathematical calculations of the DIR revenue requirements for each quarter are not unreasonable. However, Blue Ridge had several findings and recommendations related to several of the components of the DIR revenue requirements that could impact the amount that should be recovered through the DIR. These included (1) amounts associated with vegetation management and gridSMART work orders that were not excluded, (2) inclusion of cost elements that are not an appropriate overhead charge for distribution plant, (3) meters purchased from an affiliate without demonstration that the amount is the lowest cost alternative to the Company, and (4) use of an incorrect depreciation accrual rate in the carrying charge. Blue Ridge has included recommendations to address these concerns.

Overall Impact of Findings on Rider DIR Revenue Requirements

Blue Ridge's review of the accounting, accuracy, prudency, and compliance of Ohio Power Company with its Commission-approved DIR found that several work orders within the sample reviewed by Blue Ridge included cost elements totaling $63,000[148] related to costs that are inappropriate for inclusion in the distribution rider. While the $63,000 observed by Blue Ridge would be immaterial to the Company's DIR, it is likely that these cost elements are included within other work orders included within the overall work order population and are, therefore, being recovered through the DIR. Blue Ridge recommends that the Company review the cost detail for the total population of work orders included in the DIR and remove the costs of the following four identified cost elements from the DIR.

1. Cost Element 141: Incentive Accrual Dept. Level—used to record Distribution, Customer Operations and Regulatory Services Incentive Plan expense.
2. Cost Element 145: Stock-based compensation—used to record Performance Share Incentive expense.
3. Cost Element 154: Restricted Stock Incentives—used to record Restricted Stock Unit Expense.
4. Cost Element 155: Transmission Incentives—used to record Transmission Incentive Plant expense.

[146] Blue Ridge's Report dated June 19, 2013, titled "Compliance Audit of 2012 Distribution Investment Rider (DIR) of Columbus Southern Power and Ohio Power Company d/b/a AEP Ohio," page 46.
[147] AEP Ohio response to Data Request 1-046.
[148] WP BR-INT-2-001 Attachment 8 (to Remove Certain Cost Elements from DIR).

APPENDICES

Appendix A: Rider DIR Excerpts within Stipulations and Order

Appendix B: Abbreviations and Acronyms

Appendix C: Data Requests and Information Provided

Appendix D: Work Papers

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APPENDIX A: RIDER DIR EXCERPTS WITHIN ORDER AND COMBINED STIPULATION

Excerpts from the Commission Opinions and Orders specifically related to Rider DIR are provided below.

<u>Case No. 11-351-EL-AIR, et al. Opinion and Order dated December 14, 2011</u>

On page 4-6

(1) The outcome of the provisions in the Stipulation will result in a zero base distribution rate increase (Joint Ex. 1 at 3).

(a) The value of CSP's property which is used and useful in the rendition of distribution of electric power, or rate base, is $908,001,000, and the current operating income is $65,194,000, resulting in a rate of return of 7.18 percent (Id. at 4, Stipulated Schedule A-1).

(b) The value of OPCo's property which is used and useful in the rendition of distribution of electric power, or rate base, is $1,003,670,000, and the current operating income is $55,763,000, resulting in a rate of return of 5.56 percent (Id. at 4-5, Stipulated Schedule A-1).

...

(e) CSP and OPCo are entitled to returns on equity of 10.0 percent and 10.3 percent, respectively (*Id*.).

...

(g) In order to prevent excess collection of distribution revenue associated with collection of the Distribution Investment Rider (DIR) sought in the September 7, 2011, Stipulation filed in In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer, Case Nos. 11-346-EL-SSO and 11-348-EL-SSO (ESP II Stipulation), a $62,344,000 revenue credit shall be applied as outlined by the terms of this Stipulation. This credit shall be derived from subtracting $23,656,000 of DIR revenues related to certain postdate distribution investments, actual and estimated, through December 2012, from the $86,000,000 DIR cap for 2012 in the ESP II Stipulation. (Id. at 6.)

(h) The first $46,656,000 of DIR revenue credit will negate the base distribution revenue requirement stated above, resulting in a net $0 base distribution rate increase until such rates may be established pursuant to an application for establishing rates filed under Section 4909.18, Revised Code. The remaining $15,688,000 DIR revenue collected will be applied annually through May 31,2015, as follows:

(i) The first $14,688,000 of remaining DIR revenue credit will be applied solely to residential customers through a new Commission-approved rider during the term in which the DIR is in effect through May 31, 2015. The total credit to residential customers' bills during this term will be no greater than $50,184,000.

(ii) The final $1,000,000 DIR annual revenue credit will be used to fund the Partnership with Ohio Initiative, totaling $3,400,000 during the term in which the DIR is in effect. This low-income bill payment assistance funding will be provided through the Partnership with Ohio Initiative's existing Neighbor-to-Neighbor program. (Id. at 6-7.)

(2) The zero base distribution rate increase includes amortization of the depreciation reserve overaccrual identified in the Staff reports. The schedule will reflect a ten-year amortization of the theoretical accumulated depredation reserve overaccrual; however, in recognition of the overall compromises in this Stipulation, AEP-Ohio will amortize the depredation reserve overaccrual over a seven-year period. (Id. at 7-8.)

(3) AEP-Ohio will be authorized to establish new depredation rates based on the whole-life method as recommended by the Staff reports, and, if the merger of CSP and OPCo is approved, the combined company will utilize the combined rates detailed in Attachment D to the Stipulation (Id. at 8).

On page 7-8

(9) AEP-Ohio will include data related to its DIR investments and their effect on distribution service reliability in its next application(s) to 11-351-EL-AIR, et al. establish new service standards under Rule 4901:1-10-10, Ohio Administrative Code (O.A.C.) (Id. at 10-11).

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Finally, the Commission finds that, with respect to the third criterion, the evidence in the record demonstrates that the Stipulation does not violate any important regulatory principle or practice (Co. Ex. 4 at 12; OCC Ex. 1 at 8-9). The Commission notes that the Stipulation eliminates any potential for double recovery of distribution investments through distribution base rates and the distribution investment rider (DIR) provided for by AEP-Ohio's electric security plan in In re Columbus Southern Power Company and Ohio Power Company, Case Nos. 11-346-EL-SSO, et al. (Co. Ex. 4 at 5).

<u>Case No. 11-351-EL-AIR Approved Settlement Agreement</u>

On pages 4-7

1) AEP Ohio’s rate base, rate of return, and recommended revenue requirement shall be as set forth on the Revised Schedules, attached as Attachment A, which are herby incorporated by reference. Specifically, the Revised Schedules modify the Staff Report Schedules in the following respects:

a. The value of CSP's property used and useful in the rendition of distribution of electric power (rate base) is $908.001 million Stipulated Schedules A-1 and B-1).

b. The value of OPCo's property used and useful in the rendition of distribution of electric power (rate base) is $1,001670 million (Stipulated Schedules A-1 and B-1).

...

i. CSP is entitled to an overall rate of return of 7.78%, reflecting a cost of long- term debt 5.50%, a cost of preferred stock of 0.0%, and a return on equity of 10.00%.

j. OPCo is entitled to an overall rate of return of 7.97%, reflecting a cost of long-term debt 5.27%, a cost of preferred stock of 4.40%, and a return on equity of 10.30%.

k. The Signatory Parties agree that for purposes of this Stipulation reached in these cases the return on equity (ROE) used for CSP is 10.0% and for OPCo the ROE used is 10.3% and the ROE used for the combined CSP and OPCo if the merger is approved is 10.2%.[149]

2) The Signatory Parties agree that the increase in the distribution base rate revenue requirement of $46.656 million shall terminate on May 31, 2015. Any change to distribution base rates upon expiration of the rates agreed to in this Stipulation shall occur pursuant to an application for establishing rates filed under R C 4909.18

[149] The establishment of the ROE in these cases does not preclude Signatory Parties from arguing in other AEP Ohio cases that this authorized ROE is not an appropriate component of a proposed carrying charge.

3) The Signatory Parties agree that in order to prevent any potential excess collection of distribution revenue associated with the collection of the DIR in the ESP II Stipulation, there will be a $62.344 million revenue credit applied, as outlined in this Stipulation. This credit is derived from taking the $86 million DIR cap for 2012 in the ESP II Stipulation[150] and subtracting the $23.656 million of DIR revenues related to post date certain distribution investments actual and estimated through December 2012 (Attachment R). This establishes the pre date certain distribution investment during the period from January 2000 through August 2010 that is eligible to be collected through the DIR through the ESP II Stipulation

4) The first $46.656 million of DIR revenue credit will be treated on the revised CSP and OPCo Schedules A-1 as a credit to negate the aforementioned base distribution revenue requirement, resulting in a net $0 base distribution rate increase until new base distribution rates are established pursuant to an application for establishing rates filed under R C 4909.18.

The remaining $15.688 million DIR revenue collected will be applied annually through May 31, 2015 as follows:

> a) The first $14.688 million of remaining DIR revenue credit will be applied annually as a credit solely to residential customers though a new Commission approved rider[151] during the term in which the DIR is in effect, until May 31, 2015.[152] The total credit to Residential customers' bills during the term in which the DIR is in effect will be no greater than $50.184 million [$14 .688 million annually divided by 12 (months) times 41 (months)]
>
> b) The final $1 million DIR annual revenue credit will be used to fund the Partnership with Ohio initiative, prorated for 2015, totaling $3.4 million during the term in which the DIR is in effect. This low-income bill payment assistance funding shall be provided through the Partnership with Ohio Initiative's existing Neighbor to Neighbor program The Companies will provide Staff, APJN and OCC an annual verification of the credit disbursement

5) The determination of the zero base distribution increase in this Stipulation includes amortization of the depreciation reserve over accrual identified in the Staff Reports of investigation in these cases6 The Parties agree that the Stipulated A-1 schedules in Attachment A will reflect a 10 year amortization of the theoretical accumulated depreciation reserve overaccural However, in recognition of the overall compromises in this settlement agreement and in particular the decrease in carrying charges on the DARR regulatory assets that is to occur once DARR collection has begun, the Companies will amortize the depreciation reserve overaccural over a 7 year period. In addition, AEP Ohio will provide the Commission Staff with a yearly comparison of the theoretical depreciation reserve with the actual depreciation reserve balance.

6) In determination of the zero distribution base revenue increase, the Signatory Parties agree that AEP Ohio will be authorized to establish new depreciation rates based on the whole life method as recommended in the Staff Reports of Investigation.[153] If the merger of CSP and OPCo is approved, the combined Company will utilize the combined rates detailed in Attachment D.

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[150] ESP II Stipulation at 9.
[151] This residential credit will be a rider applied on a percentage of base distribution charges basis.
[152] The DIR will end on may 31, 2015. ESP II Stipulation at 9.
[153] Staff Reports at 6.

J) The Signatory Parties agree that the Stipulation in these cases is intended to settle only the issues in the cases listed on the caption of this Stipulation. While the terms of the agreement address the collection of distribution investment associated with the Distribution Investment Rider sought in the Stipulation filed in Commission Cases 11-346-EL-SSO and 11-348-EL-SSO et al., a signature by a party to this agreement does not in any way change the position or opinion of that party in those other cases Signatory Parties to these cases are only agreeing on how to treat the collection of distribution investment if the Commission approves the DIR mechanism as proposed in the ESP II Stipulation before the Commission.[154] The Commission approval of the DIR in the ESP II case is linked to this agreement as a prerequisite to the elements of the bargain reached in these proceedings. Therefore, to the extent the Commission materially modifies the DIR in the ESP II to the detriment of AEP Ohio then AEP Ohio has the right to withdraw from this agreement and litigate the issues as if the settlement in these cases had not been reached. AEP Ohio must exercise this right no later than thirty (30) days of the final non-appealable order in the ESP II proceeding. If the Commission increases the amount of the DIR in the ESP II Stipulation to the detriment of another Signatory Party, then that Signatory Party has the right to withdraw from this agreement and litigate the issues as if the settlement in these cases had not been reached; the Signatory Party seeking this withdrawal must exercise this right no later than thirty (30) days of the final non-appealable order in the ESP II proceeding In addition, in the event the DIR is approved but not implemented this Stipulation will be null and void and the issues in this case will be litigated as if the settlement in these cases had not been reached.

<u>Case No. 11-346-EL-SSO, et al. Opinion and Order dated August 8, 2012</u>

On pages 42-47

9. Distribution Investment Rider

The Company's modified ESP application includes a Distribution Investment Rider (DIR), pursuant to the provisions of Section 4928.143(B)(2)(h) or (d), Revised Code, and consistent with the approved settlement in the Company's distribution rate case,[155] to provide capital funding, including carrying cost on incremental distribution infrastructure to support customer demand and advanced technologies. Aging infrastructure, according to AEP-Ohio, is the primary cause of customer outages and reliability issues. AEP-Ohio reasons that the DIR will facilitate and encourage investments to maintain and improve distribution reliability, align customer expectations and the expectations of the distribution utility, as well as streamline recovery of the associated costs and reduce the frequency of base distribution rate cases. Replacement of aging distribution equipment will also support the advanced technologies of gridSMART which will reduce the duration of customer outages based on preliminary gridSMART Phase 1 information. The Company argues that its existing capital budget forecast includes an annual investment in excess of $150 million plus operations and maintenance in distribution assets. The DIR mechanism, as proposed by the Company, includes components to recover property taxes, commercial activity tax, and to earn a return on plant in-service based on a cost of debt of 5.46 percent, a return on common equity of 10.2 percent utilizing a 47.72 percent debt and 52.28 percent common equity capital structure. The

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[154] OCC and APJN were not signatory parties to the ESP II Stipulation. Although participating in this Stipulation as Signatory Parties, OCC's and APJN's participation here shall not be construed as a waiver or compromise of their respective positions taken in the ESP II cases in which *inter alia*, OCC and APJN continue to advocate against the inclusion of a DIR as part of the Companies' ESP.

[155] In re AEP-Ohio, Case Nos. 11-351-EL-AIR, et al. Opinion and Order at 5-6 (December 14, 2011) in reference to paragraph IV.A.3 of the Joint Stipulation and Recommendation filed on November 23, 2011.

net capital additions to be included in the DIR reflect gross plant in-service after August 31, 2010, as adjusted for accumulated depreciation, because August 31, 2010, is the date certain in the Company's most recent distribution rate case and any increase in net plant that occurs after that date is not recovered in base rates. The Company proposes to cap the DIR mechanism at $86 million in 2012, $104 million for 2013, $124 million for 2014 and $51.7 million for the period January 1 through May 31, 2015, for a total of $365.7 million. As the DIR mechanism is designed, for any year that the Company's investment would result in revenues to be collected which exceed the cap, the overage would be recovered and be subject to the cap in the subsequent period. Symmetrically, for any year that the revenue collected under the DIR is less than the annual cap allowance, then the difference shall be applied to increase the cap for the subsequent period. The Company notes that the DIR revenue requirement must recognize the $62.344 million revenue credit reflected in the Commission approved Stipulation in the Company's distribution rate case.[156] As proposed by the Company, the DIR would be adjusted quarterly to reflect in-service net capital additions, excluding capital additions reflected in other riders, and reconciled for over and under recovery. The Company specifically requests through the DIR project, that when meters are replaced by the installation of smart meters, that the net book value of the replaced meter be included as a regulatory asset for recovery in a future filing. The DIR mechanism would be collected as a percentage of base distribution revenues. Because the DIR provides the Company with a timely cost recovery mechanism for distribution investment, AEP-Ohio will agree not to seek a change in distribution base rates with an effective date earlier than June 1, 2015. (AEP-Ohio Ex. 116 at 9-12; AEP-Ohio Ex. 110 at 18-19.)

The Company notes that Staff continuously monitors the Company's distribution system reliability by way of service complaints, electric outage reports and compliance provisions pursuant to Chapter 4901:1-10, O.A.C. In reliance on Staff testimony, the Company offers that the reliability of the distribution system was evaluated as a part of this case. (Staff Ex. 106 at 5-6; Tr. at 4339,4345-4346.)

Customer expectations, as determined by AEP-Ohio, are aligned with the Company's expectations. AEP-Ohio witness Kirkpatrick offered that the updated customer survey results show that 19 percent of residential customers and 20 percent of commercial customers expect their reliability expectations to increase in the next five years. AEP-Ohio points out that when those customers are considered in conjunction with the customers who expect the utility to maintain the level of reliability, customer expectations increase to 90 percent of residential customers and 93 percent of commercial customers. AEP-Ohio states it is currently evaluating, based on several criteria, various asset categories with a high probability of failure and will develop a DIR program, with Staff input, taking into consideration the number of customers affected. (AEP-Ohio Ex. 110 at 11-19.)

OHA supports the adoption of the DIR as proposed by the Company (OHA Br. at 2). Kroger, OCC and APJN, on the other hand, ask the Commission to reject the DIR, as this case is not the proper forum to consider the recovery of distribution-related costs. Kroger, OCC and APJN reason that prudently incurred distribution costs are best considered in the context of a base distribution rate case where such cost are more thoroughly reviewed by the Commission. Kroger asserts that maintaining the distribution system is a fundamental responsibility of the utility and the Company should continue to operate under the terms of its last distribution rate case until the next such proceeding. If the Commission elects to adopt the DIR mechanism, Kroger endorses Staffs position that the DIR be modified to account for accumulated deferred income taxes (ADIT) and accelerated

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[156] *Id.*

tax depreciation. In addition, Kroger asserts that the DIR for the CSP rate zone and the OP rate zone are distinct and the cost of each unique service area should be maintained and the distribution costs assigned on the basis of cost causation. OCC and APJN add that the Company's reason for pursuing the DIR, as a component of the ESP rather than in the distribution case, is the expedience of cost recovery and when that rationale is considered in conjunction with the lack of detail on the projects to be covered within the DIR, suggest that the DIR is not needed. (Kroger Ex. 101 at 13-19; Kroger Reply Br. at 3-4; OCC/APJN Br. at 87-89; Tr. at 1184.)

OCC and APJN argue that in determining whether the DIR complies with the requirements of Section 4928.143(B)(2)(h), Revised Code, the Company focuses exclusively on the percentage of residential and commercial customers (71 percent and 73 percent, respectively) who do not believe that their electric service reliability expectations will increase rather than the minority of customers who expect their service reliability expectations to increase (19 percent and 20 percent, respectively). OCC and APJN note that 10 percent of residential customers and seven percent of commercial customers expect their reliability expectations to decrease over the next five years. At best, these interveners assert, the customer survey results are inconclusive regarding an expectation for reliability improvements as the majority of customers are content with the status quo. OCC and APJN state that with the lack of project details, and without providing an analysis of customer reliability expectation alignment with project cost and performance improvements, AEP-Ohio has failed to meet its burden of proof to support the DIR. Accordingly, OCC and APJN request that this provision of the modified ESP be rejected. (AEP-Ohio Ex. 110 at 11-12; OCC/APJN Br. at 987-994).

NFIB and COSE emphasize that the DIR, as AEP-Ohio witness Roush testified, would, if approved as proposed, result in General Service tariff rate customers receiving an increase of approximately 14.2 percent in distribution charges, about $2.00 monthly (NFIB/COSE Br. at 8-9;Tr. at 1162-1163).

Staff testified that consistent with the requirements of Rule 4901:1-10-10(B)(2), O.A.C., AEP-Ohio has rate zone specific minimum reliability performance standards, as measured by the customer average interruption duration index (CAIDI) and system average interruption frequency index (SAIFI).[157] According to Staff, development of each CAIDI and SAIFI takes into account the electric utility's three-year historical system performance, system design, technological advancements, the geography of the utility's service territory, customer perception surveys and other relevant factors. Staff monitors the utility's compliance with the reliability standards. Staff offers that based on customer surveys, 75 to 80 percent of residential and commercial customers are satisfied overall with the Company's service reliability. However, the Company's 2011 reliability measures were below their reliability measures for 2010 for CSP and the SAIFI measure was worse in 2011 than in 2010 for OP. Accordingly, Staff determined that AEP-Ohio's reliability expectations are not currently aligned with the reliability expectations of its customers. Staff further offered that a number of conditions be imposed on the Commission's approval of the DIR, including that the Company be ordered to work with Staff to develop a distribution capital plan, that the DIR mechanism include an offset for ADIT, irrespective of the Company's asserted inconsistency with the distribution rate case settlement, and that gridSMART related cost not be recovered through the DIR, so as to better facilitate the tracking of gridSMART expenditures and savings and benefits of the gridSMART project. Further, Staff proposes that AEP-Ohio be directed to make quarterly filings to update the DIR mechanism, with the filed rate to be effective, unless suspended by the Commission, 60 days after filing. The DIR mechanism, as advocated by Staff, would be subject to

[157] See *In re AEP-Ohio*, Case No. 09-756-EL-ESS, Opinion and Order (September 8, 2010).

annual audits after each May filing and, in addition, subject to a final reconciliation filing on or about May 31, 2015. With the final reconciliation, Staff recommends that any amounts collected by AEP-Ohio in excess of the established cap be refunded to customers as a one-time credit on customer bills. (Staff Ex. 106 at 6-11; Staff Ex. 108 at 3-4; Tr. at 4398.)

AEP-Ohio disagrees with the Staff's rationale that the Company's and customer's expectations are not aligned. The Company reasons that the Staff relies on the reliability indices and the fact that the Company performed below the level of the preceding year. AEP-Ohio notes that in the most recent customer survey results, with the same questions as the prior year, the Company received an 85 percent positive rating from residential customers and a 92 percent positive rating from commercial customers for providing reliable service. Further, AEP-Ohio points out that missing one of the eight applicable reliability standards during the two year period does not, under the rules, constitute a violation. The Company also notes that the reliability standards are affected by storms, which are not defined as major storms, and other factors like tree-caused outages. (Tr. at 4344-4345, 4347, 4366-4367; OCC Ex. 113, Att. JDW-2.)

AEP-Ohio also opposes Staff's recommendation to file the DIR plan in a separate docket, subject to an adversarial proceeding. The Company expresses great concern that this recommendation, if adopted, will result in the Commission micromanaging and becoming overly involved in the "day-to-day operations of the business units within the utility."

As to Staff's and Kroger's proposal to reduce the DIR to account for ADIT, the Company responds that such an adjustment would have resulted in a reduced DIR credit if taken into account when the distribution rate case settlement was pending. AEP-Ohio argues that the decision on the DIR in the modified ESP should continue to mirror the understanding of the parties to the distribution rate case as any change would improperly impact the overall balanced ESP package. (AEP-Ohio Ex. 151 at 9-10.)

As authorized by Section 4928.143(B)(2)(h), Revised Code, an ESP may include the recovery of capital cost for distribution infrastructure investment to improve reliability for customers. A provision for distribution infrastructure and modernization incentives may, but need not, include a long-term energy delivery infrastructure modernization plan. We find that the DIR is an incentive ratemaking to accelerate recovery of the Company's investment in distribution service. In deciding whether to approve an ESP that contains any provision for distribution service. Section 4928.143(B)(2)(h), Revised Code, directs the Commission, as part of its determination, to examine the reliability of the electric utility's distribution system and ensure that customers' and the electric utility's expectations are aligned and that the electric utility is placing sufficient emphasis on and dedicating sufficient resources to the reliability of its distribution system.

In this modified ESP, there is some disagreement between Staff and the Company whether or not AEP-Ohio's reliability expectations are aligned with the expectations of its customers. The Company focuses on customer surveys to conclude that expectations are aligned while Staff interprets the slight degradation in the reliability performance measures to indicate that expectations are not aligned. Despite the different conclusions by the Company and Staff, the Commission finds that both Staff and the Company have demonstrated that indeed, customers have a high expectation of reliable electric service. Given that customer surveys are one component in the factor used to establish the reliability indices and the slight reduction in the level of measured performance on which the Staff concludes that reliability expectations are not aligned, we are convinced that it is merely a slight difference between the Company's and customers' expectations. We also recognize that customer satisfaction is dependent on whether the customer has recently experienced any service outages and how quickly service was restored.

The Commission finds that, adoption of the DIR and the improved service that will come with the replacement of aging infrastructure will facilitate improved service reliability and better align the Company's and its customers' expectations. The Company appears to be placing sufficient proactive emphasis on and will dedicate sufficient resources to the reliability of its distribution system. Having made such a finding, the Commission approves the DIR as an appropriate incentive to accelerate recovery of AEP-Ohio's prudently incurred distribution investment costs. We emphasize that the DIR mechanism shall not include any gridSMART costs; the gridSMART projects shall be separate and apart from the DIR mechanism and projects. With this clarification, we believe it is unnecessary to address the Company's request to allow the remaining net book value of removed meters to be included as a regulatory asset recoverable through the DIR mechanism.

We agree with Staff and Kroger that the DIR mechanism be revised to account for ADIT. The Commission finds that it is not appropriate to establish the DIR rate mechanism in a manner which provides the Company with the benefit of ratepayer supplied funds. Any benefit resulting from ADIT should be reflected in the DIR revenue requirement. Therefore, the Commission directs AEP-Ohio to adjust its DIR to reflect the ADIT offset.

As was noted in the December 14, 2012 *[SIC, should be 2011]* Order on the ESP 2, we find that granting the DIR mechanism requires Commission oversight. 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. AEP-Ohio is correct to aspire to move from a reactive to a more proactive replacement maintenance program. The Company is directed to work with Staff to develop a plan to emphasize proactive distribution maintenance that focuses spending on where it will have the greatest impact on maintaining and improving reliability for customers. Accordingly, AEP-Ohio shall work with Staff to develop the DIR plan and file the plan for Commission review in a separate docket by December 1, 2012.

With these modifications, we approve the DIR mechanism, and direct Staff to monitor, as part of the prudence review, by an independent auditor for in-service net capital additions and compliance with the proactive distribution maintenance plan developed with the assistance of the Staff. 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. The DIR mechanism will be reviewed annually for accounting accuracy, prudency and compliance with the DIR plan developed by the Staff and AEP-Ohio.

On Pages 61-63

14. GridSMART

The Company's modified ESP application proposes the continuation of the gridSMART rider approved by the Commission in the ESP 1 Order, with two modifications.... Further, AEP-Ohio states that the Company intends to deploy elements of the gridSMART program throughout the AEP-Ohio service territory as part of the proposed DIR program proposed in this proceeding. (AEP-Ohio Ex. 107 at 10; AEP-Ohio Ex. 110 at 9-13.)

OCC and APJN submit that, to the extent that the Company proposes to include gridSMART costs in the DIR, there are numerous concerns that need to be addressed before the Company is authorized to proceed. Staff, OCC, and APJN retort that the Company's proposed expansion of the gridSMART project, before any evaluation and analysis of the success of gridSMART Phase 1, is inconsistent with sound business principles and should be rejected by the Commission. Therefore, these parties recommend that the Company not proceed with Phase 2 until evaluation of Phase 1, is complete, on or about March 31,2014. (Staff Ex. 105 at 5-6; OCC/APJN Br. at 96-97.)

More specifically, Staff reasons that the costs of the expansion of various gridSMART technologies have not been determined, the benefits of the gridSMART expansion defined nor customer acceptance of such technologies evaluated. In addition, Staff claims that the Company has stated that certain components of the aging distribution infrastructure do not support gridSMART technologies. Despite Staffs position on the commencement of Phase 2 of the gridSMART project. Staff does not oppose the Company's installation, at the Company's expense and risk of recovery, of proven distribution technologies that can proceed independently of gridSMART, which address near term generation reliability concerns, such as integrated voltage variation control (IVVC), and do not present any security or interoperability issues or violate requirements set forth by the National Institute of Standards and Technology Interagency Report. Staff endorses the continuation of the gridSMART rider to be collected from all AEP-Ohio customers. Staff emphasizes that equipment should not be recoverable in the gridSMART rider until it is installed, has completed and passed thorough testing, and has been placed in-service. (Staff Ex. 105 at 3-6; Staff Ex. 107 at 3-13.)

AEP-Ohio points out that no intervener has expressed any opposition to the continuation and completion of gridSMART Phase 1 and, accordingly, AEP-Ohio requests approval of this aspect of the modified ESP. AEP-Ohio also requests that the Commission provide some policy guidance on whether the Company should proceed with the expansion of the gridSMART program.

As the Commission noted in AEP-Ohio's ESP 1 Order:

> [I]t is important that steps be taken by the electric utilities to explore and implement technologies... that will potentially provide long-term benefits to customers and the electric utility. GridSMART Phase 1 will provide CSP with beneficial information as to implementation, equipment preferences, customer expectations, and customer education requirements... More reliable service is clearly beneficial to CSPs customers. The Commission strongly supports the implementation of AMI [advanced metering infrastructure] and DA [distribution automation initiative], with HAN [home area network], as we believe these advanced technologies are the foundation for AEP-Ohio providing its customers the ability to better manage their energy usage and reduce their energy costs.

(ESP 1 Order at 34-35.)

The Commission is not wavering in its conviction as to the benefits of gridSMART. Thus, we direct AEP-Ohio to continue the gridSMART Phase 1 project and to complete the review and evaluation of the project. We are approving the Company's request to initiate Phase 2 of the gridSMART project, prior to the March 31, 2014, completion of the evaluation of gridSMART Phase 1, with those technologies that have to-date demonstrated success and are cost-effective... However, the Company shall include, as Staff recommends, IVVC only within the distribution investment rider, as IVVC is not exclusive to the gridSMART project. IVVC supports the overall electric system reliability and can be installed without the presence of grid smart technologies, although IVVC enhances or is necessary for grid smart technology to operate properly and efficiently. Furthermore, the gridSMART Phase 1 rider was approved with specific limitations as to the equipment for which recovery could be sought, and a dollar limitation.[158] Any gridSMART investment beyond the Phase 1 pilot, which is not subject to recovery through the DIR mechanism,

[158] ESP 1 Order at 37-38; ESP 1 Entry on Rehearing at 18-24 (July 23,2009).

should be recovered through a mechanism other than the current gridSMART rider, for example, through a gridSMART Phase 2 rider. The current gridSMART rider allows for recovery on an "as spent" basis, with audits directed toward truing-up expenditures with collections through the rider rate. Keeping subsequent non-DIR, gridSMART expenditures in a new separate recovery mechanism facilitates enforcement and a Commission determination that recovery of gridSMART investment occur only after the equipment is installed, tested, and is in-service. With these clarifications, the Commission approves the Company's request to continue, as a part of this modified ESP, the current gridSMART rider mechanism, subject to annual true-up and reconciliation based on the Company's prudently incurred costs, and to extend the rate to include OP as well as CSP customers.

We note that the gridSMART Phase 1 rider was last evaluated for prudency of expenditures, reconciled for over- and under-recoveries and the rate mechanism adjusted in Case No. 11-1353-EL-RDR, with the rate effective beginning September 1, 2011. Despite the Commission's February 23, 2012 rejection of the application in this ESP 2 proceeding, the recovery of the gridSMART rate mechanism continued consistent with the Entry issued March 7, 2012. Accordingly, the gridSMART rider rate mechanism approved in Case No. 11-1353-EL-RDR shall continue at the current rate until revised by the Commission. We also note that in Case No. 11-1353-EL-RDR, the Commission deducted an amount from the Company's claim for the loss on the disposal of electro-mechanical meters. The Commission notes, as we stated in the Order issued August 4, 2011, that we will address the meter issue in the Company's pending gridSMART rider application, Case No. 12-509-EL-RDR, and nothing in this Order on the modified ESP should be interpreted to the contrary.

On pages 64-65

16. Enhanced Service Reliability Rider

As part of AEP-Ohio's ESP 1 case, AEP-Ohio proposed an enhanced service reliability rider (ESRR) program which included four components, of which only the transition to a cycle-based vegetation management program was approved by the Commission. In this modified ESP, AEP-Ohio requests continuation of the ESRR and the Company's transition to a four-year, cycle-based trimming program. Further, the Company proposes the unification of the ESRR rates for each rate zone into a single rate, adjusted for anticipated cost increases over the term of the ESP, with carrying cost on capital assets and annual reconciliation. AEP-Ohio admits that before the initiation of the transitional vegetation management program, the number of tree-related circuit outages had gradually increased. However, the Company states that with the initiation of the new vegetation management program, the number of tree-caused outages has been reduced and service reliability has improved. AEP-Ohio proposes to complete the transition from a performance-based program to a four-year, cycle-based trimming program for all of the Company's distribution circuits as approved by the Commission in the prior ESP. However, the Company notes that the vegetation management plan was implemented as a five-year transition program and, as a result of the delay in adopting a second ESP and increases in the expected costs to complete implementation of the cycle-based trimming program, it is now necessary to extend the implementation period to include an additional year into 2014. AEP-Ohio requests incremental funding for 2014 for both the completion of the transition to a cycle-based vegetation management program of $16 million and an incremental increase of $18 million annually to maintain the cycle-based program. (AEP-Ohio Ex. 107 at 8; AEP-Ohio Ex. 110 at 5-9.)

Staff supports the continuance of the ESRR through 2014 but not any cost incurred thereafter. Staff reasons that after 2014, the Company's transition to a four-year, cycle-based vegetation management program will be complete and regular maintenance pursuant to the program will be part of the Company's normal operations, the cost of which should be recovered through base rates not through the ESRR. Further, Staff argues that the ESRR funding level for the period 2012 through 2014 is overstated due to the increased ESRR baseline reflected in the Company's recent distribution rate case.159 According to Staff, to reach the rate base in the Stipulation in the distribution rate case, Staff agreed to an increase in the revenue requirement for CSP and OP which incorporated an annual increase in vegetation management operation and maintenance expense of $17.8 million annually for 2012 through 2014 over its recommendation in the Staff Report. For that reason, Staff asserts that vegetation management operation and maintenance expense must be reduced by $17.8 million annually for the period 2012 through 2014. Further, Staff recommends that the Commission direct AEP-Ohio to file, pursuant to Rule 4901:1-10-27(E)(2) and (3), O.A.C, by no later than December 31, 2013, a revised vegetation management program which commits the Company to complete end-to-end trimming on all of its distribution circuits every four years beginning January 1, 2014 and beyond. (Staff Ex. 106 at 11-14; Tr. at 4363-4365.)

AEP-Ohio retorts that Staff ignores the fact that the Stipulation, and the Commission Order approving the Stipulation, in the Company's distribution rate case do not detail any increase in the ESRR baseline. AEP-Ohio requests that the Commission reject Staff's view of the rate case settlement as unsupported and improper, after the issuance of a final, non-appealable order in the case. As to Staff's proposed termination of funding after 2014, the Company offers that such would undermine the benefits of the cycle-based trimming. (AEP-Ohio Reply Br. at 76-77.)

The Commission concludes that while the Stipulation in the distribution rate case reflects an increase in the baseline operations and maintenance expense from the level recommended in the Staff Report, there is no evidence in the Stipulation or the Commission's Order adopting the Stipulation which specifically supports a $17.8 million increase in operations and maintenance expense for the vegetation management program. Accordingly, the Commission approves the continuation of the vegetation management program, via the ESRR, and merger of the rates, as requested by the Company for the term of the modified ESP, through May 31, 2015. Within 90 days after the conclusion of the ESRR, the Company shall make the necessary filing for the final year review and reconciliation of the rider. We direct AEP-Ohio to file a revised vegetation management program consistent with this Order and Rule 4901:1-10-27(E)(2) and (3), O.A.C, by no later than December 31, 2012. We see no need to wait until December 2013 for the filing, as requested by Staff, in light of our ruling in this Order.

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19. Strom Damage Recovery Mechanism

AEP-Ohio proposes a storm damage recovery mechanism be created to recover any incremental expenses incurred due to major storm events (AEP-Ohio Ex. 110 at 20). AEP-Ohio provides that the mechanism would be created in the amount of $5 million per year in accordance with the settlement in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR. In support of the storm damage recovery mechanism, AEP-Ohio witness Kirkpatrick notes that absent the mechanism, forecasted operation and maintenance (O&M) funds would be constantly diverted to cover the expense of major storms, which could disrupt planned maintenance activities and impact system reliability. The determination of what a major storm is or is not would be determined by methodology outlined in the IEEE Guide for Electric Power Distribution Reliability Indices, as set forth in Rule 4901:1-10-10(B), O.A.C. (Id.) Any capital costs that would be incurred due to a major storm would either become a component of the DIR or would be addressed in a distribution rate

[159] In re AEP-Ohio, Opinion and Order, Case No. 11-351-EL-AIR, et al. (December 14,2011).

case {Id. at 21). Upon approval of the storm damage recovery mechanism AEP-Ohio will defer the incremental distribution expenses above or below the $5 million storm expense beginning with the effective date of January 1, 2012 (AEP-Ohio Ex. 107 at 10)....

...In establishing its storm damage recovery mechanism, AEP-Ohio failed to specify how recovery of the deferred asset would actually work or would occur. As proposed, it is unknown when AEP-Ohio would seek recovery, or whether anything over or under $ 5 million would become a deferred asset or liability. As it currently stands, the storm damage recovery mechanism is open-ended and should be modified.

Therefore, we find that AEP-Ohio may begin deferral of any incremental distribution expenses above or below $5 million, per year, subject to the following modifications. Further, throughout the term of the modified ESP, AEP-Ohio shall maintain a detailed accounting of all storm expenses within its storm deferral account, including detailed records of all incidental costs and capital costs. AEP-Ohio shall provide this information annually for Staff to audit to determine if additional proceedings are necessary to establish recovery levels or refunds as necessary.

In the event AEP-Ohio incurs costs due to one or more unexpected, large scale storms, AEP-Ohio shall open a new docket and file a separate application by December 31 each year throughout the term of the modified ESP, if necessary. In the event an application for additional storm damage recovery is filed, AEP-Ohio shall bear the burden of proof of demonstrating all the costs were prudently incurred and reasonable….

Case No. 12-2627-EL-RDR Finding and Order dated November 28, 2012

On page 2

(6) The Commission finds that AEP-Ohio's application to update the DIR, as corrected on November 16, 2012, is reasonable and should be approved. The proposed DIR rate does not appear to by unjust or unreasonable, and, therefore, we find that it is unnecessary to hold a hearing in this matter. According, the new DIR rate should be implemented beginning with bills rendered for the first billing cycle of December 2012. Notwithstanding the Commission's approval of AEP-Ohio's proposed tariffs to establish a new DIR rate for the first billing cycle of December 2012, we note that the DIR remains subject to an annual audit and reconciliation.

(7) With respect to AEP-Ohio's future quarterly DIR filings, the Commission clarifies that the proposed DIR rate shall 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. As noted above, however, the DIR is subject to adjustment during the annual audit and reconciliation.

Case No. 11-346-EL-SSO Entry on Rehearing dated January 30, 2013

On pages 44-49

XI. DISTRIBUTION INVESTMENT RIDER

(47) AEP-Ohio asserts that the Commission's failure to establish a final reconciliation and true-up for the distribution investment rider (DIR), which will expire with at the conclusion of the ESP, was unreasonable. AEP-Ohio reasons that it is unable to determine whether the DIR will have a zero balance upon expiration of the rider such that final reconciliation is necessary to address any over-recovery or under-recovery. AEP-Ohio adds that the Commission is clearly vested with the authority to direct reconciliation of the DIR, as was done for the ESRR and in other proceedings.

Accordingly, AEP-Ohio contends that it was unreasonable for the Commission to not provide for reconciliation and true-up for the DIR.

We grant AEP-Ohio's request for rehearing to facilitate a final reconciliation and true-up of the DIR at the end of the ESP. Accordingly, within 90 days after the expiration of this ESP, AEP-Ohio is directed to file the necessary information for the Commission to conduct a final review and reconciliation of the DIR.

(48) AEP-Ohio asserts that the Opinion and Order unreasonably adjusted the revenue requirement for accumulated deferred income taxes (ADIT). AEP-Ohio claims that the ADIT offset is inconsistent with the Commission approved stipulation filed in the Company's latest distribution rate case. Case No. 11-351-EL-AIR et al., (Distribution Rate Case) as the revenue credit did not take into account an ADIT offset which, as calculated by AEP-Ohio, results in the distribution rate case credit being overstated by $21.329 million. AEP-Ohio notes that the DIR was used to offset the rate base increase in the distribution rate case and included a credit for residential customers and a contribution to the Partnership with Ohio fund and the Neighbor-to-Neighbor program. AEP-Ohio argues that it is fundamentally unfair to retain the benefits of the distribution rate case settlement and subsequently impose the cost of ADIT offset through the DIR in the ESP when AEP-Ohio cannot take action to protect itself from the risk. On rehearing, AEP-Ohio asks that the Commission restore the balance struck in the distribution rate case settlement by eliminating the ADIT offset to the DIR.[160]

OCC/APJN reminds the Commission that AEP-Ohio's distribution rate case was resolved by Stipulation and the Stipulation does not include any provision for AEP-Ohio to adjust the revenue credit to customers contingent upon Commission approval of the DIR. OCC/APJN notes that the Distribution Rate Case Stipulation details the DIR revenues and the distribution of the revenue credit and also specifically provides AEP-Ohio the opportunity to withdraw from the Stipulation if the Commission materially modifies the DIR in this proceeding. Finally, OCC/APJN asserts that AEP-Ohio was the drafter of the Distribution Rate Case Stipulation and, pursuant to Ohio law, any ambiguities in the document must be construed against the drafting party.

The Commission has considered the appropriateness of incorporating the effects of ADIT on the calculation of a revenue requirement and carrying charges in several proceedings. In regard to determination of the revenue requirement for the DIR, we emphasize, as we stated in the Opinion and Order:

> The Commission finds that it is not appropriate to establish the DIR rate mechanism in a manner which provides the Company with the benefit of ratepayer supplied funds. Any benefits resulting from ADIT should be reflected in the DIR revenue requirement.

None of the arguments made by AEP-Ohio convinces the Commission that its decision in this instance is unreasonable or unlawful. As such, we deny AEP-Ohio's request for rehearing of this issue.

(49) Kroger contends that the Opinion and Order notes, but does not directly address or incorporate, Kroger's argument not to combine the DIR for the CSP and OP rate zones without offering any rationale. Kroger reiterates its claims that the DIR costs are unique and known for each rate zone and blending the DIR rates will ultimately require one rate zone to subsidize the costs of

[160] AEP-Ohio Ex. 151 at 9-10, Tr. at 2239.

service for the other. Kroger requests that the Commission grant rehearing and reverse its decision on this issue.

AEP-Ohio opposes Kroger's request to maintain separate DIR rates and accounts for each rate zone. AEP-Ohio argues that the Commission specifically noted and explained why certain rider rates were being maintained separately. Given that AEP-Ohio's merger application was approved, AEP-Ohio states that it is unreasonable for the Company to establish separate accounts for the DIR.

The Commission notes that the DIR is a new plan approved by the Commission in the ESP and the distribution investment plan will take into consideration the service needs of the AEP-Ohio as a whole. Kroger's request to establish separate and distinct DIR accounts and rates would result in maintaining and essentially continuing CSP and OP as separate entities. Kroger has not provided the Commission with sufficient justification to continue the distinction between the rate zones or demonstrated any unreasonable disadvantage or burden to either rate zone. The focus of the DIR will be on replacing infrastructure, irrespective of rate zone, that will have the greatest impact on improving reliability for customers. The Commission denies Kroger's request to reconsider adoption of the DIR on a rate zone basis.

(50) OCC/APJN argue on rehearing that the Commission failed to apply the appropriate statutory standard in Section 4928.143(B)(2)(h), Revised Code. As OCC/APJN interpret the statute, it requires the Commission to determine that utility and customer expectations are aligned.

AEP-Ohio retorts that OCC/APJN misinterpret that statute and ignore the factual record in the case to make the position which was already rejected by the Commission. AEP-Ohio reasons that in their attempt to attack the Opinion and Order, OCC/APJN parsed words and oversimplified the purpose of the statute.

The Opinion and Order discusses AEP-Ohio's reliability expectations and customer expectations as well as OCC/APJN's interpretation of the requirements of Section 4928.143(B)(2)(h), Revised Code.56 OCC/APJN claim that the statutory requirement is that customer and electric distribution utility expectations be aligned at the present time. We reject their claim that the Opinion and Order focused on a forward looking statutory standard and, therefore, did not apply the standard set forth in Section 4928.143(B)(2)(h), Revised Code. The Commission interprets Section 4928.143(B)(2)(h), Revised Code, to require the Commission to examine the utility's reliability and determine that customer expectations and electric distribution utility expectations are aligned to approve an energy delivery infrastructure modernization plan. The key for the Commission is not, as OCC/APJN assert, to find that customer and utility expectations were aligned, are currently aligned or will be aligned in the future but to maintain, to some degree, the reasonable alignment of customer and utility expectations continuously. As noted in the Opinion and Order, and in OCC/APJN's brief, over 70 percent of customers do not believe their electric service reliability expectations will increase and approximately 20 percent of customers expect their service reliability expectations to increase. AEP-Ohio emphasized aging utility infrastructure and the Commission expects that aging utility infrastructure increases outages and results in the eroding of service reliability. The Commission found it necessary to adopt the DIR to maintain utility reliability as well as to maintain the general alignment of customer and utility service expectations. Thus, the Commission rejects the arguments of OCC/APJN and denies the request for rehearing.

(51) OCC/APJN also assert that the DIR component of the Opinion and Order violates the requirements of Section 4903.09, Revised Code, because it did not address Staff's request for details on the DIR plan. In addition, OCC/APJN contend that the Opinion and Order failed to address details about the DIR plan as raised by Staff, including quantity of assets, cost for each asset class, incremental costs and expected improvement in reliability.

We disagree. The Opinion and Order specifically directed AEP-Ohio to work with Staff to develop the plan, to focus spending where it will have the greatest impact and quantify reliability improvements expected, to ensure no double recovery, and to include a demonstration of DIR expenditures over projected expenditures and recent spending levels. Therefore, we also deny this aspect of OCC/APJN's request for rehearing of the Opinion and Order. Finally, the Commission clarifies that the DIR quarterly updates shall be due, as proposed by Staff witness McCarter, on June 30, September 30, December 30 and May 18, with the final filing due May 31, 2015, and the DIR quarterly rate shall be effective, unless suspended by the Commission, 60 days after the DIR update is filed.

(52) OCC/APJN contend that in their initial brief they argued that adoption of the DIR would impact customer affordability without the benefit of a cost benefit analysis. With the adoption of the DIR, OCC/APJN reason that the Opinion and Order did not address customer affordability in light of the state policies set forth in Section 4928.02, Revised Code, and. therefore, the Opinion and Order violates Section 4903.09, Revised Code.

We reject the attempt by OCC/APJN to focus exclusively on the DIR as the component of the ESP that must support selective state policies. First, we note that the Ohio Supreme Court has ruled that the policies set forth in Section 4928.02, Revised Code, do not impose strict requirements on any given program but simply expresses state policy and function as guidelines for the Commission to weigh in evaluating utility proposals. Nonetheless, we note that the ESP mitigates customer rate increases in several respects. The provisions of which serve to mitigate customer rate increases include, but are not limited to, stabilizing base generation rates until the auction process is implemented, June 1, 2015; requiring that a greater percentage of AEP-Ohio's standard service offer load be procured through auction sooner than proposed in the application; continuance of the gridSMART project so that more customers will benefit from the use of various technologies to allow customers to better control their energy consumption and costs; and developing electronic system improvements to facilitate more retail competition in the AEP-Ohio service area. Thus, while the adoption of the DIR supports the state policy to ensure reliable and efficient retail electric service to consumers in AEP-Ohio service territory, the above noted provisions of the approved ESP serve not only to mitigate the bill impact for at-risk consumers but all AEP-Ohio consumers. On that basis, the Opinion and Order supports the state policies set forth in Section 4928.02, Revised Code. Thus, we reject OCC/APJN's attempt to narrowly focus on the DIR as the component of the ESP that must support the state policies and deny the request for rehearing.

<u>Case No. 13-419-EL-RDR Opinion and Order dated April 23, 2014</u>

On pages 3-5, Summary of Stipulation

III. Summary of Stipulation

As stated previously, an amended stipulation signed by AEP Ohio and Staff was filed on January 17, 2014. The stipulation was intended by the signatory parties to resolve all of the outstanding issues in this proceeding (Jt. Ex. 1 at 1). The stipulation includes, inter alia, the following provisions:

(1) Upon approval of the stipulation, AEP Ohio agrees to reduce the December 2012 DIR revenue requirement by $6,154.39 so that the rider recommended by the signatory parties for adoption is 11.93845 percent of base distribution rates, such that a corresponding adjustment will be made in the quarterly update that follows the decision adopting the stipulation. The adjustment reflects the removal of

commercial activity tax on equity from the pretax weighted average cost of capital component of the carrying charge rate, removal of the Commission and OCC assessment, and exclusion of land held for future use. This aggregate adjustment was agreed to as part of a compromise and settlement of all of the financial issues except for the AMI meters, which are addressed separately below.

(2) The signatory parties recommend that the additional 22,000 AMI meters, which were installed after completion of the gridSMART Phase 1 rider, should be recovered through the gridSMART Phase 2 rider going forward, to the extent that it is approved by the Commission and subject to the following implementation terms:

(a) AEP Ohio will make a filing in the pending gridSMART Phase 2 rider update case. Case No. 13-1939-EL-RDR, within 30 days of finalizing the stipulation, recommending recovery of the 22,000 AMI meter investment as part of the decision in that case.

(b) Upon a decision, in Case No. 13-1939-EL-RDR, approving the inclusion of the 22,000 AMI meters in the gridSMART Phase 2 rider, AEP Ohio will record a DIR adjustment to exclude the investment at the same time that it files its compliance tariffs to update the gridSMART Phase 2 rider. This adjustment will be included in AEP Ohio's next quarterly DIR adjustment filing.

(c) In reaching this agreement. Staff is not endorsing the prudency of the 22,000 AMI meter investment at this time and reserves the right to conduct a prudency review in the gridSMART Phase 2 docket. Case No. 13-1939-EL-RDR. In processing the filing in Case No. 13-1939-EL-RDR, Staff will determine whether any additional audit review of the 22,000 AMI meter investment is needed, given the audit review of this AMI investment already conducted by Blue Ridge, and will conduct its review accordingly. The signatory parties take no position at this time whether the prior investment in these 22,000 AMI meters should be included in the cost-benefit analysis associated with the gridSMART Phase 2 initiative. The AMI investment will be subject to a cost-benefit analysis and the signatory parties agree that one of the benefits to be credited is the savings associated with recovering this investment through the gridSMART Phase 2 rider as compared to the gridSMART Phase 1 rider.

(d) Upon the future filing of the additional reduction to the DIR related to moving recovery of the 22,000 AMI meter investment to the gridSMART Phase 2 rider, the DIR will be reduced by the net book value of the additional meters at that time. That adjustment will be reflected in the next quarterly filing. The signatory parties understand that the DIR is also subject to further adjustment based on future filings by AEP Ohio.

On page 7, Findings of Fact and Conclusions of Law

(6) At the hearing, a stipulation was submitted, intending to resolve all of the issues in this case. No party opposed the stipulation.

(7) The stipulation meets the criteria used by the Commission to evaluate stipulations, is reasonable, and should be adopted.

<u>Case No. 13-2385-EL-SSO Opinion and Order dated February 25, 2015</u>

On pages 40-47

6. Distribution Investment Rider

The DIR was previously approved by the Commission, in the ESP 2 Case, to facilitate the timely and efficient replacement of aging infrastructure to improve service reliability. ESP 2 Case, opinion and Order (Aug. 8, 2012) at 46-47. Presently, the DIR is updated quarterly using FERC forms and AEP Ohio's DIR rider rates are automatically approved 60 days after the application is filed, unless the Commission specifically orders otherwise. The Commission reviews the DIR annually for accounting accuracy, prudency, and compliance with the DIR plan developed by AEP Ohio with Staff input.

In this ESP application, under the authority of R.C. 4928.143(B)(2)(h), AEP Ohio requests the continuation of the DIR, with certain modifications and adjustments. AEP Ohio requests that the DIR rate caps be established at $155 million for 2015, $191 million for 2016, $219 million for 2017, and $102 million for January 1 through May 31, 2018, for a total of $667 million. For any year that AEP Ohio's investment results in revenues to be collected that exceed the cap, the excess would be recovered and be subject to the cap applicable in the subsequent period. The same would be true when AEP Ohio's investment results in revenues to be collected that fall below the cap for the period; the cap for the subsequent period would be increased by the amount available from the prior period. AEP Ohio proposes DIR capital projects that primarily fall into eight categories: asset improvement, customer service, forestry, general, other, planning capacity, reliability, and system restoration. AEP Ohio reasons that these types of capital investments are key components in its strategy for maintaining the distribution system and improving reliability. One of the capital investments that AEP Ohio plans to make, if this ESP is approved, is to replace its 800 megahertz radio system at a cost of approximately $23 million. The radio system is used to support field communication, dispatching, remote equipment interrogation, global positioning satellite communications, service restoration, and remote meter reading. (Co. Ex. 1 at 9-10; Co. Ex, 4 at 17-19; Co. Ex. 14 at 5-7.)

However, AEP Ohio requests that the DIR, as currently implemented, be modified in three respects.^[161] First, AEP Ohio requests that the DIR mechanism be modified such that the balance of each category of plant incurs an applicable associated carrying charge. Second, AEP Ohio proposes that the DIR be expanded to include general plant. Third, AEP Ohio requests that a gross-up factor be added to riders, including the DIR, to account for the Company's obligation to fund a portion of the budgets of the Commission and OCC. (Co. Ex. 13 at 5-7; Co. Ex. 14 at 1-2.)

Market Strategies International (MSI) conducted telephone surveys for AEP Ohio in2012 to determine customer reliability expectations. MSI conducted two series of telephone surveys, interviewing a total of 400 residential customers and 400 small commercial customers. According to the survey results, 69.8 percent of residential customers and 75.8 percent of small commercial customers believe that their electric service reliability expectations will stay about the same over the next five years. Significantly fewer customers surveyed, 13.0 percent of residential customers and 14.8 percent of small commercial customers, thought that their service reliability expectations over the next five years would increase somewhat. Some of the customers surveyed thought that

[161] AEP Ohio also requests that gridSMART Phase 1 capital costs be transferred into the DIR and that issue is addressed in the gridSMART section of this Opinion and Order

their service reliability expectations would increase significantly over the next five years, 5.8 percent of residential customers and 3.0 percent of small commercial customers. On the other hand, the surveys revealed that relatively few customers believe that their service reliability expectations will decrease somewhat, 5.3 percent of residential customers and 2.8 percent of small commercial customers. (Co. Ex. 4 at 5-8, Ex. SJD-1 at 1-2.)

AEP Ohio submits that the DIR advances the state policies expressed in R.C. 4928.02(A), (D), (E), (G), and (M). Further, AEP Ohio encourages the Commission to find that the DIR, as proposed, satisfies the statutory requirements set forth in R.C. 4928.143(B)(2)(h) and to approve the rider. (Co. Br. at 84.)

OHA supports the Commission's approval of the DIR, as proposed by AEP Ohio (OHA Br. at 3). Similarly, Staff generally does not oppose the continuation of the DIR, as the Commission approved the mechanism and the process for review in AEP Ohio's previous ESP proceedings. ESP 2 Case, Opinion and Order (Aug. 8, 2012) at 46-47. Staff testified that AEP Ohio's most recent system reliability standards were developed pursuant to Ohio Adm. Code 4901:1-10-10(B)(2), in Case No. 12-1945-EL-ESS, and adopted by the Commission in accordance with a stipulation filed by all of the parties to the proceeding. In re Ohio Power Company, Case No. 12-1945-EL-ESS (Reliability Standards Case), Opinion and Order (Mar. 19, 2014) at 6. In the Reliability Standards Case, the Commission established a customer average interruption duration index (CAIDI) of 150.0 minutes and a system average interruption frequency index (SAIFI) of 1.20, excluding "major event days," as defined by the Institute of Electrical and Electronics Engineers. The new CAIDI and SAIFI standards were first applicable to AEP Ohio for calendar year 2013. Staff confirmed that, based on AEP Ohio's application filed in Case No. 14-517-EL-ESS, the Company met both its SAIFI and CAIDI performance standards for 2013. For that reason. Staff recommends that the Commission find that AEP Ohio's reliability expectations are aligned with those oi its customers. (Staff Ex. 10 at 5-6;Staff Ex. 17 at 2; Staff Br. at 43.)

Staff, however, opposes the substantial increase and modifications that AEP Ohio requests with respect to the DIR. Regarding the request to include general plant. Staff, OCC, and Kroger assert that the request is another example of AEP Ohio's attempt to avoid a distribution rate case. OCC argues that general plant is not, by definition, infrastructure and, therefore, it is not appropriate to include general plant in the DIR. Staff reasons that the recovery of general plant costs via a rider is inconsistent with the intent of the ESP statute and the Commission's directives with respect to the DIR. Noting the Commission's rationale for approving the DIR as stated in the ESP 2 Case, Staff asks the Commission to reaffirm its directive that AEP Ohio's DIR spending focus on those components that will best improve or maintain reliability. General plant, in Staff's and OCC's opinion, does not satisfy the Commission's stated criteria, because the types of general plant expenses that AEP Ohio seeks to include in the DIR do not directly relate to the reliability of the distribution system. Staff maintains that general plant like the radio system and service centers, at best, supports maintaining reliability, but does not directly relate to distribution system reliability. Staff argues that the DIR was never intended to facilitate the recovery of all capital expenditures. General plant. Staff reasons, does not satisfy the Commission's stated objective for the DIR, which is "to encourage the electric utility to proactively and efficiently replace and modernize infrastructure." ESP 2 Case, Opinion and Order (Aug. 8, 2012) at 47. Staff requests that AEP Ohio's proposal to modify the DIR to include general plant be denied. (OCC Ex. 18 at 14; Staff Br. at 43-47; Staff Reply Br. at 34-36; OCC Br. at 85-86; OCC Reply Br. at 59-60; Kroger Reply Br. at 3-4.)

AEP Ohio responds that the general plant investments in question primarily consist of service centers and the radio communications systems that directly support the frontline employees. AEP Ohio witness Dias testified that some of the facilities were built in the World War II era and need work. AEP Ohio notes that the DIR plan will be discussed with Staff, as it has been since implementation, and filed with the Commission. AEP Ohio further notes that Staff witness McCarter indicated that, after a full review. Staff may agree to the inclusion of the radio system. (Tr. II at 344; Tr. IX at 2295; Co. Reply Br. at 73-74.)

AEP Ohio also proposes that the DIR be modified to include a factor to account for the Commission's and OCC's budgets. According to Staff, including a gross-up factor to account for AEP Ohio's share of the Commission's and OCC's budgets is short-sighted and unnecessary. Staff contends that there are only two scenarios where AEP Ohio would owe a significantly larger dollar amount for the assessments in a subsequent year; first, if AEP Ohio's revenues increase disproportionally to the revenues of all of the other regulated public utilities in Ohio; and, second, if there is an increase in either the Commission's or OCC's budget. Staff notes that the Commission's and OCC's budgets have not increased in recent years and are not expected to increase in the foreseeable future. Staff also argues that AEP Ohio did not demonstrate that its revenues would increase so disproportionately as to justify the proposed change in the gross-up factor. (Staff Ex. 17 at 4; Staff Br. at 47-48.)

OCC emphasizes AEP Ohio's failure to provide specific service reliability improvements for each DIR program implemented. OCC and OMAEG argue that AEP Ohio failed to present any analysis to support its claims that service reliability has and will deteriorate without the DIR. For that reason, OCC and OMAEG oppose any increase in the DIR without supporting documentation. (OMAEG Br. at 10; OCC Reply Br. at 56.)

If the Commission approves the continuation oi the DIR, Staff makes six recommendations to facilitate the Commission's efficient review of plant recovery costs across the Company's riders. More specifically. Staff recommends that, in all subsequent DIR filings, AEP Ohio include additional detailed account and subaccount information; employ jurisdictional allocations and accrual rates from the Distribution Rate Case; provide a full reconciliation between the functional ledger and FERC forms; detail the DIR revenue collected by month; and highlight and quantify any proposed changes to capitalization policy. Staff also recommends that the Commission direct AEP Ohio to file a fully updated depreciation study by November 2016, with a study date of December 31, 2015. (Staff Ex. 17 at 5-7.)

OCC notes that AEP Ohio's enhanced service reliability rider (ESRR) and DIR programs include the widening and clearing of right-of-ways. OCC recommends that the Commission delete $3.9 million from the forestry component of the DIR for each year 2015 through 2018 to avoid any double recovery by AEP Ohio. (Tr. II at 353; OCC Br. at 84-85.) Further, OCC contends that the depreciation reserve used to calculate property taxes should be adjusted to eliminate the cumulative amortization of the excess depreciation reserve and the net plant to which the property tax is applied (OCC Br. at 90). Staff concurs with OCC's recommendation (Staff Reply Br. at 36-37).

OCC believes that the DIR, as well as other riders, should not be allocated based on total base distribution revenues, as AEP Ohio proposes, but rather in proportion to the allocation of net electric plant in service as set forth in the cost-of-service studies filed in the Distribution Rate Case. OCC contends that AEP Ohio's allocation does not follow cost causation principles and would result in residential customers being charged approximately $29 million more than their fair share for the DIR, ESRR, and sustained and skilled workforce rider (SSWR). (OCC Ex. 14 at 5-12; OCC Br. at 107-109.) OEG and lEU-Ohio oppose OCC's reallocation proposal. OEG advocates that the costs underlying the DIR and the other riders are related to the provision of distribution service and it is, therefore, reasonable to allocate the rider costs to rate schedules on the basis of distribution revenues. OEG notes that the Commission adopted the DIR in the ESP 2 Case and reasons that it is appropriate for the Commission to follow this methodology for the new and modified riders proposed in these ESP proceedings. OEG also reasons that the approach recommended by OCC would require a fresh review of the cost of service and allocation methodology, which would equate to a "mini rate case" on rider allocation and rate design. OEG offers that such a review is outside of the scope and would unduly complicate the ESP proceedings. OEG and lEU-Ohio submit that the cost-of-service study relied on by OCC is outdated and reliance on the study would be unreasonable. OEG asserts that there is insufficient evidence in these proceedings to change an allocation method and rate design that the Conunission has previously vetted and determined to be fair, just, and reasonable. (OEG Br. at 27; lEU-Ohio Reply Br. at 28-30.)

OPAE and APJN challenge the DIR, noting that AEP Ohio is not claiming that reliability will decline if the DIR is not approved in this ESP. Given that the DIR currently constitutes approximately 17.1 percent of the average residential customer's distribution charges, OPAE and APJN reason that this rider makes electric service less affordable for residential customers who are struggling financially. On that basis, OPAE and APJN opine that it is reasonable for the Commission to discontinue the DIR. OPAE and APJN dispute AEP Ohio's contention that the DIR advances the state policy as expressed in R.C. 4928.02(A), which requires the availability to consumers of reliable and reasonably priced retail electric service. OPAE and APJN claim that AEP Ohio failed to present any testimony or discussion on brief indicating how the DIR complies with R.C. 4928.02(L), regarding the protection of at-risk populations. To address this oversight, OPAE and APJN suggest that the Commission require AEP Ohio to continue its annual $1 million funding commitment of the Neighbor-to-Neighbor program. Further, OPAE and APJN ask the Commission to direct AEP Ohio to contribute $1 million annually from shareholders to the Neighbor-to-Neighbor program. Finally, these intervenors ask the Commission to exempt income-eligible customers from riders approved in these ESP proceedings, including the DIR, to mitigate the impact of rate increases on at-risk customers, in support of R.C. 4928.02(L). (OPAE/APJN Reply Br. at 4-9.)

First, the Commission notes that, under R.C. 4928.143(B)(2)(h), an ESP may include provisions regarding distribution infrastructure and modernization incentives for the electric distribution utility. In determining whether to approve an ESP that includes a provision for distribution infrastructure modernization, R.C. 4928,143(B)(2)(h) directs the Commission to examine the reliability of the electric distribution utility's distribution system, ensure that the expectations of customers and the electric distribution utility are aligned, and determine that the electric distribution utility is placing sufficient emphasis on and dedicating sufficient resources to the reliability of its distribution system.

The Commission concludes that the record indicates that the vast majority of residential customers, 82.8 percent, and small commercial customers, 90.6 percent, believe their electric service expectations will be about the same, or increase somewhat over the next five years (Co. Ex. 4 at Ex. SJD-1 at 1-2). We note that, in the prior ESP proceedings, when the Commission approved the implementation oi the DIR, AEP Ohio's reliability measures were or had been below its reliability standards for 2010 and 2011. ESP 2 Case, Opinion and Order (Aug. 8, 2012) at 45. The record in these proceedings indicates that AEP Ohio has met its system reliability standards, CAIDI and SAIFI, for 2013 (Staff Ex. 10 at 5). Further, in the Reliability Standards Case, AEP Ohio agreed to file an updated reliability performance standards application by June 30, 2016, to reflect the impact of system design changes, technological advancements, geographical effects of programs like, but not limited to, the DIR and gridSMART programs, and the results of updated and current customer perception surveys. Reliability Standards Case, Opinion and Order (Mar. 19,2014) at 3.

As several of the parties have noted, the Commission approved the current DIR mechanism on the premise offered by AEP Ohio that aging infrastructure was the primary cause of customer outages and reliability issues and the DIR would improve reliability and support the installation of gridSMART technologies. The expanded DIR for which AEP Ohio seeks approval in these ESP proceedings far exceeds the justification offered and accepted by the Commission in approving the original DIR. Furthermore, it appears that AEP Ohio's interpretation of distribution infrastructure exceeds the intent of the statute (Tr. II at 436-438). Accordingly, we must deny AEP Ohio's request to significantly increase the amount to be recovered via the DIR and to incorporate general plant into the DIR mechanism. The record does not support such a significant expansion of the DIR. We find that AEP Ohio's DIR investments, at the level requested in these proceedings, would be better considered and reviewed in the context of a distribution rate case where the costs can be evaluated in the context of the Company's total distribution revenues and expenses, and the Company's opportunity to recover a return on and of its investment can be balanced against customers' right to reasonably priced service. (Staff Ex. 17 at 3.) For these reasons, the Commission denies AEP Ohio's request to increase the DIR to the level proposed in the ESP application and its request to incorporate general plant into the DIR mechanism.

Likewise, we deny AEP Ohio's request to adjust the DIR to account for the budgets of the Commission and OCC. The Commission agrees with the arguments of Staff that it is unlikely that the budgets of either agency will increase significantly over the next few years sufficient to justify revising the DIR (Staff Ex. 17 at 4). For this reason, we find that the requested modification to the DIR is inappropriate and unreasonable. Further, the Commission declines to adopt OCC's recommendation regarding the allocation of the DIR, as it is reasonable and consistent with the ESP 2 Case to allocate the rider costs to rate schedules on the basis of distribution revenues. We also decline to adopt OCC's proposal to adjust the forestry component of the DIR, because OCC has not established the occurrence of any double recovery through the DIR and ESRR. We note, however, that the DIR will continue to be subject to an annual audit.

The Commission finds merit in OCC's recommendation to revise the property tax calculation and, therefore, we adopt the adjustment recommended by OCC witness Effron (OCC Ex. 18 at 9-11; Staff Ex. 17 at 4-5). We further modify the DIR to adopt the six recommendations by Staff regarding detailed account information, jurisdictional allocations and accrual rates, reconciliation between functional ledgers and FERC form filings, revenue collected by month in the DIR, highlighting and quantifying DIR capitalization policy, and the filing of an updated depreciation study by November 2016, as outlined in Staff witness McCarter's testimony (Staff Ex. 17 at 5-7). However, the Commission recognizes that AEP Ohio is now performing at or above its established reliability standards and its reliability expectations appear to be aligned with its customers (Staff Ex. 10 at 5; Co. Ex. 4 at Ex. SJD-1 at 1-2). Therefore, we conclude that it is no longer necessary for AEP Ohio to work with Staff to develop a DIR plan, so long as the Company continues to perform at or above its adopted reliability standards.

To facilitate AEP Ohio's continued proactive investment in its aging distribution infrastructure, we approve the Company's request to continue the DIR at $124 million for 2015, $146.2 million for 2016, $170 million for 2017, and $103 million for January through May 2018, for a total of $543.2 million. The Commission has determined the annual DIR amounts based on the level of growth of three to four percent as permitted for the DIR in the ESP 2 Case. We find this to be a reasonable level to allow AEP Ohio to continue to replace aging distribution infrastructure in order to maintain and improve service reliability over the term of this ESP. With the modifications discussed herein, the Commission approves the continuation of the DIR as a component of the ESP.

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8. gridSMART Rider

In this ESP, AEP Ohio proposes the continuation of the gridSMART program, including the gridSMART rider initially approved by the Commission in the ESP 1 Case and continued in the ESP 2 Case. ESP 1 Case, Opinion and Order (Mar. 18, 2009) at 37-38, Entry on Rehearing (July 23, 2009) at 18-24; ESP 2 Case, Opinion and Order (Aug. 8, 2012) at 62. However, AEP Ohio proposes modification of the gridSMART rider to transfer the remaining gridSMART Phase 1 costs to the DIR and use the gridSMART rider to track gridSMART Phase 2 costs. AEP Ohio reasons that gridSMART Phase 1 spending concluded at the end of 2013 and the gridSMART Phase 1 assets are not currently in base rates and have been excluded from the DIR. AEP Ohio requests that the DIR be modified to include the existing gridSMART Phase 1 assets. In support of the request, AEP Ohio claims that, beginning in June 2015, the total cost data for gridSMART Phase 1 will be available for reconciliation. With the reconciliation of gridSMART Phase 1, AEP Ohio posits that eliminating the removal of gridSMART Phase 1 net book value from the DIR mechanism will allow the Company to recover its investment on and of gridSMART Phase 1 assets in service. As of the filing of AEP Ohio's direct testimony in these cases, the Company expected to complete the installation of equipment associated with gridSMART Phase 1 and to submit data on gridSMART Phase 1 to the United States Department of Energy (USDOE) by December 31, 2014. AEP Ohio notes that it filed an evaluation of gridSMART Phase 1 with the Commission on or about March 31, 2014. AEP Ohio also notes that the Commission granted the Company authority to initiate the installation of certain gridSMART technologies that have demonstrated success and are cost-effective. ESP 2 Case, Opinion and Order (Aug. 8, 2012) at 62-63. AEP Ohio tiled its proposed expansion of the gridSMART program, gridSMART Phase 2, in Case No. 13-1939-EL-RDR (gridSMART 2 Case), on September 13, 2013. According to AEP Ohio's application in the gridSMART 2 Case, the Company plans to invest $465 million in gridSMART Phase 2. (Co. Ex. 1 at 10; Co. Ex. 3 at 4-5; Co. Ex. 4 at 10-11,13,15-16,20; Co. Ex. 13 at 7.)

AEP Ohio reasons that continuation of the gridSMART Phase 2 rider provides for continued deployment of emerging distribution system technologies where they can cost effectively improve the efficiency and reliability of the distribution system, develop performance standards and targets for service quality for all consumers, and encourage the use of energy efficiency programs and alternative energy resources. AEP Ohio submits that authority for including the gridSMART program in the ESP is set forth in R.C, 4928.143(B)(2)(h). AEP Ohio avers that the continuation of the proposed gridSMART Phase 2 program and rider is consistent with the policies listed in R.C. 4905.31(E) and R.C. 4928.02. (Co. Br. at 87-88.)

OCC argues that customers should not incur gridSMART Phase 2 charges on their bills until there has been a complete review of the gridSMART Phase 1 program and customer representatives and other interested stakeholders are provided an opportunity to raise any issues or concerns. On that basis, OCC requests that AEP Ohio's proposed treatment of gridSMART Phase 1 and gridSMART Phase 2 be rejected. (OCC Br. at 112-113.)

IGS, OEC, and EDF support AEP Ohio's gridSMART rider and the deployment of smart meters throughout the service territory. IGS, OEC, and EDF reason that smart meters are essential for the widespread offering of TOU products to customers. OEC and EDF believe that there is great potential for improved air quality resulting from the deployment of gridSMART technology, due to the reduced number of trucks that must be deployed to read meters and to disconnect and reconnect electric utility service. OEC and EDF also submit that Volt-VAR optimization will facilitate savings through energy efficiency and demand response programs. (OEC/EDF Br. at 7; IGS Reply Br. at 14.)

Further, while OEC and EDF recognize that the details of gridSMART Phase 2 will be determined in the gridSMART 2 Case, OEC and EDF aver that certain issues relating to the prudency of gridSMART costs and the associated benefits should be addressed by the Commission as a part of these ESP proceedings. To that end, OEC and EDF recommend that the Commission approve the continuation of the gridSMART program and the introduction of the gridSMART Phase 2 rider subject to nine conditions. (OEC/EDF Ex. 1 at 3-8; Tr. XII at 2784-2785.) OEC and EDF assert that their recommendations are intended to facilitate AEP Ohio's demonstration of the additional benefits of its gridSMART deployment, ease compliance with forthcoming United States Environmental Protection Agency regulations regarding greenhouse gas emissions for existing coal plants under Section 111(d) of the Clean Air Act, and ensure transparency and accountability (OEC/EDF Br, at 7-9; OEC/EDF Reply Br. at 7-S).

Kroger opposes AEP Ohio's request to transfer the remaining gridSMART Phase 1 cost into the DIR. Kroger notes that the Commission previously directed that gridSMART costs be recovered via a separate rider and not be incorporated into the DIR. ESP 2 Case, Opinion and Order (Aug. 8, 2012) at 63. Kroger submits that, if gridSMART costs are recovered outside the framework of a distribution rate case, the associated costs should be recovered through a separate rider that properly recovers costs on a per-customer basis. (Kroger Ex. 1 at 11; Kroger Br. at 4, 6.) In reply to Kroger, AEP Ohio states that moving gridSMART Phase 1 costs into the DIR is appropriate in order to dedicate the gridSMART Phase 2 rider to recovery of costs associated with Phase 2 of the program as approved in the gridSMART 2 Case. AEP Ohio also posits that the recommendations of OEC and EDF for gridSMART Phase 2 should be addressed in the gridSMART 2 Case, not these ESP proceedings. (Co. Reply Br. at 77-78.)

As discussed in the ESP 1 Case and the ESP 2 Case, the Commission continues to find significant long-term value and benefit for AEP Ohio and its customers with the implementation of advanced metering infrastructure, distribution automation, and other smart grid technologies. In the ESP 2 Case, the Commission approved AEP Ohio's request to initiate gridSMART Phase 2, directed that the Company file its proposed gridSMART Phase 2 project with the Commission, and directed that gridSMART Phase 2 costs be recovered through a separate rider as opposed to merging the costs into the gridSMART Phase 1 rider. ESP 2 Case, Opinion and Order (Aug. 8, 2012) at 62-63. For that reason, the Commission finds AEP Ohio's request to continue the gridSMART rider, with certain modifications as proposed by the Company, to be reasonable. Further, consistent with our decision in these proceedings to continue the gridSMART Phase 2 rider, we approve AEP Ohio's request to transfer gridSMART Phase 1 capital costs to the DIR mechanism upon the Company's accounting for all USDOE reimbursements due. (Co. Ex. 1 at 10; Co. Ex. 3 at 4-5; Co. Ex. 4 at 10-11, 13, 15-16, 20; Co. Ex. 13 at 7.) Given that, at the conclusion of gridSMART Phase 1, AEP Ohio will have recovered the vast majority of O&M expense, with only capital asset cost remaining to be collected over the useful life of installed gridSMART assets, it is efficient for the associated gridSMART Phase 1 costs to be included in the DIR. We remind AEP Ohio that, consistent with the Commission's directive in the ESP 2 Case, within 90 days after the expiration of ESP 2, the Company shall file an application for review and reconciliation of the gridSMART Phase 1 rider. ESP 2 Case, Entry on Rehearing (Jan. 30, 2013) at 53. After the Commission has reviewed and reconciled gridSMART Phase 1 costs, AEP Ohio may transfer the approved capital cost balance into the DIR, which will not be subject to the DIR caps, and may also transfer any unrecovered O&M balance into the gridSMART Phase 2 rider.

As with gridSMART Phase 1, the Commission will continue to annually review and approve AEP Ohio's gridSMART Phase 2 program, including the prudency of expenditures and the reconciliation of investments placed in service with revenues collected. We will also evaluate AEP Ohio's gridSMART Phase 2 program and determine the gridSMART rate to be charged customers, as well as consider OEC's and EDF's remaining recommendations, in the gridSMART 2 Case currently pending before the Commission.

<u>Case No. 13-2385-EL-SSO Second Entry on Rehearing dated May 28, 2015</u>

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IV. DISTRIBUTION INVESTMENT RIDER

(34) In these proceedings, the Commission approved AEP Ohio's request to continue the distribution investment rider (DIR), with certain modifications. As approved in the ESP 3 Order, the modified DIR cap levels are $124 million for 2015, $146.2 million for 2016, $170 million for 2017, and $103 for January through May 2018. The Commission further modified the DIR to permit the balance oi each category ol plant to incur an applicable associated carrying charge, as proposed by AEP Ohio; revised the property tax calculation, as proposed by OCC; and to incorporate the six recommendations proposed by Staff regarding the submission of detailed account information, jurisdictional allocations and accrual rates, reconciliation between functional ledgers and FERC form filings, to require the submission of DIR revenue collected by month, direct that the Company notify, highlight, and quantify any proposed DIR capitalization policy amendments, and to require the filing of an updated depreciation study by November 2016. ESP 3 Order at 46-47.

(35) In its application for rehearing, AEP Ohio requests that, to the extent that the Commission does not issue a full rehearing decision within the 30-day timeframe set forth in R.C. 4903.10, the Commission issue an expedited rehearing decision on the DIR, due to the immediate and substantial impact on the Company's capital commitments and investment in Ohio. AEP Ohio states that a prompt decision regarding the DIR annual revenue caps would enable the Company to continue to make improvements to its distribution infrastructure without significant disruption in the field in the short term, while also avoiding impairment of the Company's capabilities to continue to make improvements in an efficient manner over the long term.

(36) OMAEG argues that AEP Ohio's request for an expedited rehearing decision on the DIR issues is unreasonable and should be denied. OMAEG submits that the confusion that may result from an ad hoc approach to the rehearing process outweighs the alleged urgency for Commission action regarding the DIR. OCC also contends that the Commission should not address the DIR issues on rehearing on an expedited basis apart from the other issues raised by the parties. Noting that the Commission lacks statutory authority in this respect, OCC asserts that, if AEP Ohio's request is approved, the Commission will establish a dangerous precedent in which certain issues receive special treatment over others. Additionally, OCC asserts that it is always AEP Ohio's obligation to spend whatever capital is necessary to provide appropriate service reliability. OCC further asserts that the existence of the DIR does not preclude AEP Ohio from seeking recovery of distribution related investments through a distribution rate case, which would afford the Commission the opportunity to ensure that customers have actually received the service reliability improvements and efficiencies claimed by the Company.

(37) The Commission finds AEP Ohio's request for an expedited decision, while not prohibited under the rehearing process set forth in R.C. 4903.10, to be moot.

(38) In its application for rehearing, AEP Ohio contends that the Commission's modifications to the Company's DIR proposal are unreasonable and should be changed or clarified on rehearing. AEP Ohio, therefore, requests that the Commission adopt one or more of a number of options to better align the Company's and customers' reliability expectations and interests, consistent with R.C. 4928.143(B)(2)(h). First, AEP Ohio asserts that the Commission should reconsider its decision to reduce the Company-proposed DIR annual revenue caps and its denial of the Company's proposal to include general plant within the DIR. AEP Ohio points out that neither intervenors nor Staff recommended specific reductions to the annual revenue caps and, consequently, there is no evidence in the record regarding the resulting impacts from the reductions adopted by the Commission in the ESP 3 Order. AEP Ohio requests that the Commission reinstate the Company's proposed annual revenue caps or, alternatively, grant rehearing and receive further testimony to better gauge and understand the actual impacts of various levels of DIR revenue cap reductions on the Company's incremental reliability infrastructure investments. In support of its request, AEP Ohio notes that a static revenue cap as between 2014 and 2015, at the level of $124 million, will

have significant implications for capital reliability spend, while it will be logistically difficult and harmful to customers if the Company must abruptly pull back on pending capital projects that are already in progress. AEP Ohio explains that, due to the timing of the Commission's issuance of the ESP 3 Order, the Company was required to estimate the DIR revenue cap for 2015, establish its capital budget, and make contractual commitments to implement projects, and did so with the presumption that some additional revenue growth would be provided in 2015. With respect to AEP Ohio's proposal to include general plant in the DIR, the Company requests that the Commission grant rehearing and approve the expansion of the DIR to include infrastructure characterized by the Company as targeted general plant, most of which relates to the Company's service centers and radio communications system.

(39) In its memorandum contra, OMAEG responds that the Commission's decision not to include general plant in the DIR was reasonable, because, as noted by the Commission, the types of general plant expenses that AEP Ohio seeks to include in the DIR do not directly relate to the reliability of the distribution system. OMAEG also argues that the Commission should not adopt AEP Ohio's proposed annual revenue caps for the DIR on rehearing, given that the Company failed to present any analysis to support its claims that service reliability will deteriorate without the DIR, while the Company's proposed caps are excessive as compared with those currently in place, are unsupported by the evidence, and, in significant part, do not directly relate to distribution service reliability.

(40) OCC, in its memorandum contra, asserts that the Commission correctly rejected the inclusion of general plant in the DIR as beyond the intent of the statute. OCC notes that AEP Ohio had ample opportunity to present evidence in support of its claim that general plant has a direct impact on customer service and reliability, but nevertheless failed to meet its burden of proof on this issue.

(41) Alternatively, AEP Ohio requests that the Commission correct what the Company believes are mistaken DIR annual revenue caps. AEP Ohio points out that, in the ESP 3 Order, the Commission stated its intention to establish the annual revenue caps based on the level of growth of three to four percent as permitted for the DIR in the ESP 2 Case. AEP Ohio notes that the annual revenue caps approved by the Commission result in a zero percent growth in distribution revenue for 2015, followed by a more reasonable 2.9 percent growth in 2016 and 3 percent growth in 2017. According to AEP Ohio, if left unchanged, this situation will require the Company to pull back on capital investment in Ohio, which not only involves a reduced investment and potential reliability impacts but also could mean loss of contractor jobs currently sustained by the DIR funding. AEP Ohio states that, if the Commission elects to adopt DIR annual revenue caps at the lower end of its stated intention, meaning 3 percent, the annual caps would be $147 million in 2015, $171 million in 2016, $195 million in 2017, and $92 million for the first five months in 2018.

(42) OCC replies that AEP Ohio offers no evidence or documentation that indicates that the Commission erred in setting the DIR annual revenue caps. OCC maintains that the Commission's decision is consistent with the ESP 2 Case, while there is nothing in the ESP 3 Order to support AEP Ohio's assumption that the Commission intended to increase the DIR revenue cap from 2014 to 2015 by two to three percent. OCC argues that AEP Ohio's contention that there should be two to three percent growth from 2014 to 2015 requires the DIR program to be viewed as a single continuous six-year program instead of two distinct three year programs that were proposed, considered, and approved in two separate ESP proceedings.

(43) Next, AEP Ohio asserts that another option to partially offset the adverse effects of the annual revenue cap reductions would be for the Commission to clarify its intention in the ESP 2 Case regarding the annual revenue cap for 2012. AEP Ohio maintains that it is not clear whether the

Commission intended to prorate the $86 million revenue cap for 2012, based on an effective date of August 2012, such that the actual revenue cap for 2012 could either be $86 million as stated in the ESP 2 Case or $35.8 million (5/12 of $86 million). AEP Ohio notes that, as a result, the cumulative underspend that carries over to 2015 and beyond could be either $77.1 million or $26.9 million. AEP Ohio concludes that, if the Commission clarifies on rehearing that its intention in the ESP 2 Case was to adopt an $86 million revenue cap for 2012 without proration, it will produce a significant carryover amount that would help to alleviate the current problem for 2015 and beyond.

(44) lEU-Ohi0 responds, in its memorandum contra, that the Commission should reject AEP Ohio's request for clarification. IEU-Ohio notes that, because AEP Ohio failed to seek rehearing in the ESP 2 Case concerning the calculation of the annual revenue caps, the Company waived review of that provision of the Commission's decision in the ESP 2 Case. lEU-Ohio further notes that AEP Ohio did not seek rehearing of the revenue calculations that the Commission reviewed during the audit of the DIR for 2012 in Case No. 13-419-EL-RDR, which confirmed that a revenue cap of $86 million for 2012 -was used to determine the carryover amount and, thus, there is no reasonable basis for the Commission to allow the Company to further increase its cap for 2015. IEU-Ohio concludes that AEP Ohio's request for clarification constitutes an untimely request for rehearing of the ESP 2 Case, is barred by the doctrines of res judicata and collateral estoppel, and, if granted, would result in unlawful retroactive ratemaking.

(45) OCC also argues that AEP Ohio's request for clarification regarding the DIR revenue cap for 2012 constitutes an unlawful attempt by the Company to relitigate aspects of the ESP 2 Case that are not at issue in the present proceedings. OCC requests that the Commission reject AEP Ohio's untimely effort to seek rehearing of the ESP 2 Case. OCC adds that there is nothing in the record or in the ESP 3 Order to support AEP Ohio's request that the cumulative underspend from the ESP 2 Case be permitted to carry over to 2015 and beyond.

(46) In their memorandum contra, OPAE/APJN contend that AEP Ohio's request for clarification regarding the DIR cap for 2012 should be considered an unlawful request for retroactive ratemaking. OPAB/APJN also point out that the level of DIR funding authorized by the Commission for the ESP 3 term is in addition to any carryover amounts. OPAE/APJN believe that the fact that AEP Ohio's DIR spending was below the DIR annual revenue caps established in the ESP 2 Case explains the level of the caps approved by the Commission for the ESP 3 term. Finally, OPAE/APJN assert that distribution service charges should be considered in the context of a distribution rate case and that the Commission appropriately encouraged AEP Ohio to seek base rate recovery of its distribution investments.

(47) In its application for rehearing, OMAEG argues that the Commission erred in allowing AEP Ohio to recover $543.2 million through the DIR over the course of the ESP, as recovery of distribution investments of that order of magnitude is not supported by record evidence and recovery of such costs is more appropriately addressed in the context of a base distribution rate case. Specifically, OMAEG maintains that nothing in the record indicates that the caps approved by the Commission represent a necessary level of recovery under the DIR for AEP Ohio to be able to continue to provide customers with reliable service. OMAEG, therefore, requests that the Commission revisit the caps established in the ESP 3 Order. OMAEG also requests that the Commission reverse its decision to relieve AEP Ohio of its responsibility to work with Staff to develop a DIR plan throughout the ESP term, particularly given that the Company did not file testimony or other documentation demonstrating any service reliability improvements related to specific distribution investments, in connection with the proposed ESP.

(48) In response, AEP Ohio points out that OMAEG's arguments are related to the statutory basis of riders and standards pertaining to the DIR result that are not found in statute. AEP Ohio

contends that, contrary to OMAEG's claim, there is no requirement that the Company demonstrate the benefit of each yearly DIR. AEP Ohio further contends that OMAEG's concerns regarding the reporting and quantification of reliability improvements have been resolved by the Commission in prior cases. With respect to OMAEG's request that AEP Ohio be required to continue to develop a DIR work plan with the assistance of Staff each year, the Company states that, while a formal requirement is no longer necessary, the Company intends to continue to obtain Staff's input and understand Staff's expectations when finalizing the DIR plan.

(49) OPAE/APJN assert that the Commission acted unreasonably and unlawfully when it approved the continuation of the DIR and maintained the rider's current cost allocation. OPAE/APJN claim that AEP Ohio's request to continue the DIR should have been rejected, because the Company did not consider the affordability of the DIR and did not demonstrate any quantifiable reliability benefits from the rider. OPAE/APJN contend that distribution related charges should be considered in distribution rate case proceedings and that riders should be limited to recovery of costs that are large, volatile, and outside of the utility's control, which, according to OPAE/APJN, AEP Ohio has not shown is the case for the DIR.

(50) AEP Ohio replies that the Commission has the authority to approve recovery of distribution related costs through riders and has often done so through ESP proceedings pursuant to R.C 4928.143(B)(2)(h). AEP Ohio believes that the time for a policy debate on whether riders should be included in an ESP filing has passed. Regarding the affordability of the DIR, AEP Ohio responds that its testimony reflects that, considering the impact of the entire ESP proposal, residential customers with typical usage are expected to see a monthly rate decrease beginning in June 2015.

(51) In the ESP 3 Order, the Commission denied AEP Ohio's request to increase the amount to be recovered via the DIR, at the level proposed in the Company's application, as well as the Company's request to include general plant in the DIR. The Commission found that the evidence of record does not support an expansion of the DIR to the extent proposed by AEP Ohio and that the Company's distribution investments, at the level requested in these proceedings, would be better considered and reviewed in the context of a distribution rate case. ESP 3 Order at 46. The Commission further found that, because AEP Ohio is performing at or above its established reliability standards and its reliability expectations appear to be aligned with its customers, it is no longer necessary for the Company to work with Staff to develop a DIR plan, as long as the Company continues to perform at or above its reliability standards. ESP 3 Order at 47. Finally, in order to facilitate AEP Ohio's continued proactive investment in its aging distribution infrastructure, the Commission approved the Company's request to continue the DIR at $124 million for 2015, $146.2 million for 2016, $170 million for 2017, and $103 million for January through May 2018. The Commission stated that the annual DIR revenue caps are based on a level of growth of three to four percent, consistent with the ESP 2 Case, and are intended to enable AEP Ohio to continue to replace aging distribution infrastructure as a means to maintain and improve service reliability over the course of the ESP. ESP 3 Order at 47. Upon review of AEP Ohio's grounds for rehearing with respect to the DIR, the Commission finds that the DIR annual revenue caps should be modified, as it was not the Commission's intent to provide for no growth in the annual cap from 2014 to 2015. We, therefore, find that the DIR annual revenue caps should be set at $145 million for 2015 (including amounts previously authorized in the ESP 2 Case), $165 million for 2016, $185 million for 2017, and $86 million for January through May 2018. We find that the adjusted caps shall reflect annual growth in the DIR, as a percentage of customer base distribution charges, of three to four percent, which was our objective in modifying the DIR annual revenue caps proposed by AEP Ohio for the ESP 3 term so that they more closely track the progression from the ESP 2 Case. Accordingly, the Commission grants rehearing with respect to AEP Ohio's request that the DIR annual revenue caps

established in the ESP 3 Order be adjusted, in order to enable the Company to continue to implement the DIR plan that is already underway for 2015. We find no merit in AEP Ohio's remaining grounds for rehearing regarding the DIR, which should, thus, be denied.

(52) Further, the Commission finds no merit in the alleged grounds for rehearing raised by OMAEG and OPAE/APJN with respect to the DIR. We find that the arguments raised by OMAEG and OPAE/APJN have already been thoroughly considered and rejected. ESP 3 Order at 43-45, 95. Regarding OMAEG's request that AEP Ohio be required to continue to work with Staff to develop an annual DIR work plan, we affirm our finding that it is no longer necessary to impose such a requirement, given the Commission's finding that the Company's reliability expectations appear to be aligned with its customers, as well as the fact that the Company has been meeting or exceeding its reliability standards. ESP 3 Order at 47. Additionally, as AEP Ohio acknowledges, the Company intends to continue to coordinate with Staff in the process of finalizing each annual DIR plan, which the Commission believes is a reasonable approach that should be implemented throughout the ESP term. For these reasons, OMAEG's and OPAE/APJN's applications for rehearing regarding the DIR should be denied.

V. ENHANCED SERVICE RELIABILITY RIDER

(53) OPAE/APJN submit that the ESP 3 Order is unreasonable to the extent that it approved the enhanced service reliability rider (ESRR) and DIR cost recovery allocation, outside the context of a distribution rate case and contrary to sound ratemaking practices. Further, OPAE/ APJN argue the riders do not incentivize the utility to control costs and should be limited to instances where the costs are large, volatile, and outside of the utility's control. AEP Ohio did not, according to OPAE/APJN, demonstrate that the ESRR or the DIR meet these criteria or that the financial integrity of the Company would be compromised if such costs were considered in the context of a distribution rate case. Further, OPAE /APJN argue ESRR and DIR costs to be recovered should be allocated to the customer classes consistent with cost causation principles and AEP Ohio's most recent cost of service studies as opposed to contribution to distribution revenues.

(54) AEP Ohio replies that this issue was raised by the intervenors and rejected by the Commission in the ESP 3 Order. Further, AEP Ohio notes the Commission resolved the recovery of incremental distribution investments in these cases in precisely the same manner as in other recent cases where the issue was considered. In re Ohio Edison Co., The Cleveland Elec. Illuminating Co., and The Toledo Edison Co., Case No. 12-1230-EL-SSO, Opinion and Order (July 18, 2012) at 56. AEP Ohio submits that the Commission has the authority to approve recovery of distribution related costs through riders in ESP proceedings pursuant to R.C. 4928.143(B)(2)(h). Accordingly, AEP Ohio requests that OPAE/APJN's request for rehearing be denied.

(55) The Commission finds that OPAE/APJN's arguments on the continuation of the distribution riders and the cost allocation method for the DIR and ESRR were raised, thoroughly considered, and rejected in the ESP 3 Order. ESP 3 Order at 49, 95. Intervenors assert no new arguments that persuade the Commission that the riders and the cost recovery allocation method should be revised on rehearing. The DIR and ESRR relate to the provision of distribution service and it is reasonable to allocate the cost of such riders on the basis of distribution revenues. In this ESP, the Commission continues the cost recovery allocation method previously adopted by the Commission in AEP Ohio's prior ESP proceedings. ESP 2 Case, Opinion and Order (Aug. 8, 2012) at 43-44, 77. Therefore, OPAE/APJN's request for rehearing should be denied.

APPENDIX B: ABBREVIATIONS AND ACRONYMS

The following abbreviations and acronyms are used in this report.

ADIT	Accumulated deferred income tax
AFUDC	Allowance for Funds Used During Construction
AMI	Advanced Meter Infrastructure
ARRA	American Reinvestment Recovery Act
APJN	Appalachian Peace and Justice Network
CAT	Commercial Activity Tax
CSP	Columbus Southern Power Company
DA	Distribution Automation
DIR	Distribution Investment Rider
DOE	Department of Energy
ESP	Electric Security Plan
ESSR	Enhanced Service Reliability Rider
FERC	Federal Energy Regulatory Commission
HAN	Home Area Network
IVVC	Integrated Volt-VAR Control
LOSA	Level of Signatory Authority
MRO	Market Rate Offer
OCC	Ohio Consumers' Counsel
OPCo	Ohio Power Company
PUCO	Public Utility Commission of Ohio
RFP	Request For Proposal
SOX	Sarbanes-Oxley
SSO	Standard Service Offer
UPIS	Utility Plant In Service
VVO	Volt VAR Optimization
WACC	Weighted average cost of capital

APPENDIX C: DATA REQUESTS AND INFORMATION PROVIDED

Request #	Request
AEP-BR-INT-1.001	PRIORITY DATA REQUEST: Work Orders in DIR: Please provide in Microsoft Excel format a list of work orders by FERC account, including project identification numbers that comprise plant to be recovered through Rider DIR for the period January 1, 2015 through December 31, 2015.Include the description, dollar amount, completion date, and whether the work was an addition or replacement. Please specifically identify blanket project work orders and associated project identification numbers.
AEP-BR-INT-1.002	PRIORITY DATA REQUEST: DIR Filings: Please provide, in electronic format, the schedules that support the Rider DIR filings for each Quarter in 2015.
AEP-BR-INT-1.003	PRIORITY DATA REQUEST: Rider DIR Preparation: (a) Please provide a narrative on how the Rider DIR is prepared. Include sources for all components, how components are gathered and entered, and approval requirements (i.e., who provides approvals, for what items, and when are approvals needed in the process). (b) Also provide the name, title, and department of each person that provides information and/or compiles information for the filing. Each person should be available for interview.
AEP-BR-INT-1.004	DIR Filings: Please provide all workpapers and documents that support the information included within the Rider DIR filings for eac.h Quarter in 2015. Please provide the source data in its original electronic format.
AEP-BR-INT-1.005	DIR Preparation: Please provide a narrative of any changes made to the development process of the 2015 Rider DIR schedules from the 2014 schedules.
AEP-BR-INT-1.006	DIR Workorder Population Recon: Please provide a reconciliation of the list of workorders provided in the list of workorders provided in Data Request 1.1 to the amounts included in the December 31, 2015 DIR Filing.
AEP-BR-INT-1.007	FERC Form 1 Recon: Please provide a reconciliation of the Rider DIR balances to the balances in the 2015 FERC Form 1.
AEP-BR-INT-1.008	Prior DIR Audit Adjustments: For any prior audit adjustments, please provide the workpapers that support the amount recorded.
AEP-BR-INT-1.009	Organization Chart: Please provide a current organization chart of the Company.
AEP-BR-INT-1.010	Policies and Procedures: Please provide the policies and procedures and/or flow charts for the following activities that provide input into the Rider DIR revenue requirements and cost of service models. For any of these policies and procedures, please identify any and all changes that have been put into place since the last Rider DIR audit. a) Plant Accounting, including 1. Capitalization 2. Preparation and approval of work orders 3. Recording of CWIP, including the systems that feed the CWIP trial balance; 4. Application of AFUDC 5. Recording and closing of additions, retirements, cost of removal and salvage to plant 6. Unitization process based on the retirement unit catalog 7. Application of depreciation 8. Contributions in Aid of Construction (CIAC) b) Purchasing/Procurement c) Accounts Payable/Disbursements d) Accounting/Journal Entries e) Payroll (direct charged and allocated) f) Taxes (Accumulated Deferred Income Tax, Federal, State, and local Income Tax) g) Insurance recovery h) Allocations i) Work Management System j) Information Technology
AEP-BR-INT-1.011	Policies and Procedures: Please specifically explain any changes that have been made to the capitalization policies that would transfer costs from operating expense to capital since, the

Request #	Request
	inception of the Rider DIR (2012). Include any changes to the retirement unit catalog.
AEP-BR-INT-1.012	Policies and Procedures: Please specifically explain any changes in any of the policies and procedures that affect the Rider DIR revenue requirements and cost of service models that would have a bearing on any shift in the recording of costs from operating expense to capital.
AEP-BR-INT-1.013	Approval Signatures: Please provide the Level of Signature Authority (LOSA) document that supports the approval of capital projects put in service from January 1, 2015 through December 31, 2015.
AEP-BR-INT-1.014	Internal Audits: Please provide a list of Internal Audits performed for 2015. List the name of the audit, scope, objective, and when the work was performed.
AEP-BR-INT-1.015	SOX Compliance Audits: Please provide a list of SOX compliance work performed during 2015. List the name of the audit, scope, objective, and when the work was performed.
AEP-BR-INT-1.016	Variance Analysis: Please provide a Microsoft Excel spreadsheet in FERC Form 1 format of the beginning and ending period balance by primary plant (300 account and sub account), additions, retirements, transfers, and adjustments for the following periods January 1, 2015 through December 31, 2015.
AEP-BR-INT-1.017	Variance Analysis: Please provide a Microsoft Excel spreadsheet of the jurisdictional accumulated reserve for depreciation balances by FERC 300 account for January 1, 2015 through December 31, 2015.
AEP-BR-INT-1.018	Budget: Please provide the 2015 capital budget supporting the plant spend in the 2015 DIR Compliance Filings. Also, please include the assumptions supporting the budget/projected data.
AEP-BR-INT-1.019	Capital Dollars Spent: Please provide the total actual capital dollars spent as compared to the approved budget.
AEP-BR-INT-1.020	DIR Plan: Please provide the 2015 DIR Plan provided to Staff showing the estimated and actual spend on Ohio Distribution plant.
AEP-BR-INT-1.021	DIR Plan Reconciliation to DIR Compliance Filing: Please reconcile the DIR Plan provided to Staff to the capital dollars included within the DIR.
AEP-BR-INT-1.022	Variance: Does the Company maintain any budget-to-actual and/or variance tracking from (1) its 2015 DIR Work Plan Components to (2) actual results for 2015? If not, please explain fully why not. If so, please provide those budget-to-actual and/or variance tracking for 2015, including any related Excel files and budget variance explanations.
AEP-BR-INT-1.023	Depreciation: Please provide the approved depreciation accrual rates by FERC 300 account. Please indicate the Commission order that approved the rates for each company and the Service Company.
AEP-BR-INT-1.024	Depreciation Study: Please provide the last Depreciation Study covering Distribution Plant accounts.
AEP-BR-INT-1.025	Depreciation: Does the Company use a depreciation rate for any FERC 300 sub-account that has not been approved by the Commission? If so, please provide the following for any changes made in 2015: (a) FERC 300 account, sub account (b) Depreciation accrual rate used (c) Analysis supporting the use of the accrual rate (d) Effective date of the rate (e) Any filings with the Commission for approval
AEP-BR-INT-1.026	ADIT: Please provide a list of ADIT included within Rider DIR for 2015.
AEP-BR-INT-1.027	ADIT: Please provide a narrative of the type of ADIT eligible for inclusion in Rider DIR.
AEP-BR-INT-1.028	ADIT: The Tax Increase Prevention Act of 2014 extended the 50% bonus tax depreciation for qualified property placed into service before January 1, 2015. The Protecting Americans from Tax Hikes Act of 2015, further extended the 50% bonus tax depreciation for qualified property placed in service during 2015, 2016, and 2017. Please provide an explanation on how these tax provisions that extended 50% bonus tax depreciation for qualified property placed into

Request #	Request
	service were recognized in the determination of ADIT in the Companies' Rider DCR filing.
AEP-BR-INT-1.029	Renewable Tax Credits: (a) During 2015, were any costs for any renewable projects included in any Plant Account 360 through 374 and recovered through the DIR? (b) If so, please identify the installed renewable projects and the costs recorded in each such Plant account. (c) If any installed renewable projects were included, please provide the amount of any investment tax credits taken by the Company. (d) If any investment tax credits were taken by the Company for project costs included in the DIR, please explain how these credits were recognized within the DIR.
AEP-BR-INT-1.030	Carrying Charge Rate: Please show in detail how the Company developed the carrying charge rate applicable in the Rider DIR for 2015. Include supporting Excel files showing the detail of carrying cost development for the return, depreciation, and property tax components. For each component, please state whether the amount is approved by the Commission and provide the Case Number and date of the Order.
AEP-BR-INT-1.031	Gross Up Factor: Please provide the workpaper supporting the derivation of the Gross Up Factor.
AEP-BR-INT-1.032	Meters: Please provide the quantity and cost of meters purchased during 2015. Please provide this in total and for each type of meter.
AEP-BR-INT-1.033	Meters: Please explain how meters purchased are determined to be recovered through the DIR or through gridSMART?
AEP-BR-INT-1.034	Meters: For the Smart meters purchased in 2015, please identify the number of meters purchased for gridSMART purposes and those purchased for non-gridSMART purposes (AMR or some other use). Also, please include the FERC plant account those respective meters were charged to (FERC 370, FERC 370.16 or other FERC accounts).
AEP-BR-INT-1.035	Meters: Please confirm that meters are capitalized when purchased, as opposed to when installed. If this is not the case, please explain.
AEP-BR-INT-1.036	Retired Meters: Reference Case No. 13-1939-EL-RDR, Stipulation and Recommendation dated April 7, 2016, pages 10-11: The Stipulation states that the Company will retire existing meters through the normal course of business which will be included in the DIR rider, and any undepreciated amount for the retired meters will be accorded standard accounting treatment and included in the calculation of accumulated depreciation reserve for distribution and general plant in the next base distribution case. How has the Company been recording and recovering the undepreciated costs of retired meters? How much has the Company recovered through the DIR?
AEP-BR-INT-1.037	Riders/Surcharges: Please provide a comprehensive list of Riders and surcharges that were in effect for the Company during 2015. Of the list of Riders, please then indicate which if any of the riders provide for recovery of Distribution Plant. For each of those Riders please show in detail how AEP coordinated cost recovery between Rider DIR and each other Rider. Include supporting workpapers.
AEP-BR-INT-1.038	Exclusions: Please provide project ID and a list of work orders by FERC account used for the following types of work in the testing period January 1, 2015 through December 31, 2015. (a) gridSMART (b) Enhanced Service Reliability Riders (ESRR)
AEP-BR-INT-1.039	Exclusions for DIR: Please provide a narrative of the distribution infrastructure to support customer demand and advanced technologies that is not eligible for inclusion in Rider DIR and the process that is used to identify and exclude these items from the Rider DIR calculations.
AEP-BR-INT-1.040	gridSMART: Please provide the Company's policies and procedures and accounting guidelines for distinguishing which costs are (1) recovered in Rider DIR, and (2) recovered in the

Request #	Request
	gridSMART Rider.
AEP-BR-INT-1.041	gridSMART: Please show in detail specifically how costs related to Meters (account FERC 370 and sub accounts) and Communication Equipment (account FERC 397) are allocated between Rider DIR and gridSMART Rider.
AEP-BR-INT-1.042	GridSMART: Reference Case No. 13-1939-EL-RDR, Stipulation and Recommendation dated April 7, 2016, and Case No. 13-419-EL-RDR Order dated April 23, 2014: The Stipulation in Case No. 13-1939-EL-RDR (pp. 9-10) recommends that the capital costs associated with the approved gridSMART Phase I assets be transferred to the DIR for recovery.The Order in Case No. 13-419-EL-RDR (pp. 4-5) requires that upon a decision in Case No. 13-1939-EL-RDR, the DIR will be reduced by the net book value of 22,000 AMI meters and those costs transferred to gridSMART Phase 2 Rider.Please provide a narrative on how that information will be pulled together, including the vintage years of the meters to be transferred, and the transfers recorded. If available, please provide the workpapers showing the accumulation of the costs associated with the transfer.
AEP-BR-INT-1.043	Plant Held for Future Use: Please provide a description of the item(s) included within the exclusion labeled Remove Plant for Future Use.
AEP-BR-INT-1.044	In-active Workorders: Please provide an "inactive workorder report" as of each date: (a) 12/31/14 (or 1/1/15) (b) 12/31/15
AEP-BR-INT-1.045	Customer Bills: Please provide a typical residential customer bill showing the application of the DIR for an illustrative month during 2015.
AEP-BR-INT-1.046	Base Distribution Revenues: Please provide screen shots of the query used to determine the base distribution revenues for each month of 2015 that can be used to verify the amounts of base distribution revenue included in the Company's quarterly DIR filings for 2015.
AEP-BR-INT-1.047	Unitization Backlog: Please provide information regarding any backlog in the unitization of work orders for 2015.Please provide number of back logged work orders, the dollar value, and the length of time in months.
AEP-BR-INT-1.048	Insurance Recoveries: Please provide a list of Insurance Recoveries charged to capital from January 1, 2015 through December 31, 2015. Please separate damage claim recoveries from other recoveries.
AEP-BR-INT-1.049	Insurance Recoveries: Please provide a list and explanation of any pending insurance recoveries not recorded or accrued that would be charged to capital. Indicate the type of recovery, estimated amount, and when receipt is expected. Please separate damage claim recoveries from other recoveries.
AEP-BR-INT-1.050	Damage claims: Please explain the accounting for damage claims from the billing to receipt of funds.

Request #	Request
AEP-BR-INT-2.001	Priority Data Request - Reference Company response to BR-INT-1-001. Please refer to the attached list of work orders selected from the population of work orders provided in response to the reference data request. If you have any questions, please contact Joe Freedman at jfreedman@blueridgecs.com or 607-280-3737. In the interest of time, and associated deadlines, please provide the data in batches as they are completed. For each work order on the list, please provide the following information in Microsoft Excel spreadsheets: For the attached work order list (BRCS Set 2-2015 Sample Workorders Confidential.xlsx), please provide the following information in Microsoft Excel spreadsheets. a. A work order sample summary. i. The individual work order or project approval, written project justification, including quantification of efficiency and cost savings, present value analysis, and/or internal rate of return calculations for projects other than annually budgeted work orders. ii. The individual work order or project estimated and actual in-service dates with explanations for delays > 90 days. iii. The individual work order or project, budget vs. actual costs, with explanations for cost variances +/- 15%. iv. If the information in a i-a iii cannot be provided individually please provide the information requested in item b. below. b. A report at a project level with a reference to the sample workorder that includes i. Approval ii. Project justification iii. Budget and actual costs with explanation for cost variances +/- 15% iv. Estimated and actual in-service dates with explanation for delays > 90 days. c. Estimates for cost of construction, (material, labor), AFUDC, overheads, retirements, cost of removal, salvage and CIAC's. d. Supporting detail for assets (units and dollars by FERC account for all FERC accounts within the workorder) added to utility plant from the Power Plant system. e. Supporting detail for retirements, cost of removal and salvage, if applicable, charged or credited to plant (units and dollars) for replacement workorders from the Power Plant system. f. An updated list of cost elements g. Cost element detail that shows the individual workorder, FERC account, and amount as selected in the sample. Considering that a workorder may consist of more than one FERC account, the cost element detail can also include other WBS or Projects as long as the individual FERC account charge selected in the sample is visible.
AEP-BR-INT-2.002	Follow up to Data Request DR-1-001, attachment a, "106 reversal: Please confirm Blue Ridge's understanding of what the line items "106 reversal" represent in the work order population. Completed work orders (additions to plant) are transferred from FERC 107 (CWIP) to FERC 106 (Completed Construction Not Classified). Once those work orders are unitized FERC 106 is credited (106 reversal) and FERC 101 (Plant in service) is debited. Therefore the transfer from 106 to 101 represents a reclassification of a plant-in-service work order and does not impact plant-in-service except for spreading the dollars to the appropriate plant (300) accounts.
AEP-BR-INT-3.001	Internal Audits: Follow up to Data Request response DR- 1-014. The response provided the internal audit performed for the DIR. The DIR is made up of Utility Plant In-Service which is fed from CWIP. Therefore, any system that feeds CWIP, including but not limited to WMS, Payroll, M&S, Overheads, AFUDC, Transportation and direct contractor charges through purchasing could have an impact on the DIR. In consideration of this please provide any Internal Audits performed in 2015 on any feeder system that in one form or another charges CWIP.

Request #	Request
AEP-BR-INT-3.002	SOX Compliance: Follow up to Data Request Response DR-1-015. The response appears to be only the SOX compliance work performed on the DIR for 2015. The DIR is made up of Utility Plant In-Service which is fed from CWIP. Therefore, any system that feeds CWIP, including but not limited to WMS, Payroll, M&S, Overheads, AFUDC, Transportation and direct contractor charges through purchasing could have an impact on the DIR. In consideration of this: a. Please provide any SOX Compliance audits performed in 2015 on any of those feeder systems that in one form or another feed CWIP. Include if the controls passed or failed, and if failed the severity and impact of the failure on the DIR. b. Please indicate if the controls for the SOX compliance work already provided in the response passed or failed, and if failed the severity and impact to the DIR of the failure.
AEP-BR-INT-3.003	Meters: Follow up to Data Request Response DR-1-036. The Company response indicates that individual assets are not tracked for mass property accounts. Therefore, the amount of undepreciated costs recovered through the DIR cannot be determined. a. Are meters recorded by vintage year? b. Are meters tracked by serial number? c. If meters are recorded by vintage year and are tracked by serial number can the accumulated depreciation be determined by the average unit cost by meter type x the depreciation rate x the number of years the asset has been in –service? If so then the undepreciated cost can be determined. If not why not?
AEP-BR-INT-3.004	Meters: Follow up to Data Request response DR – 1-042 and reference Data Request Response Dr-1-036: The response indicates that "the Company will query from the owned asset system the gridSMART net book value and remove from the 370.16 all other Net Book Value." a. Please explain if mass assets are not tracked individually how will the net book value for the meters (370.16) associated with girdSMART be determined?
AEP-BR-INT-3.005	Unitization Backlog: Follow up to Data Request Response DR-1-047. The attachments with the response addresses policies related to workorder suspension and inactive work orders but do not address work orders completed, in-service, and not unitized. Please provide the information for Unitization backlog and if not available, or the backlog is not tracked, please explain why.
AEP-BR-INT-4.001	Follow-up to Data Request BR-INT-2-001, Attachment 2 page 72, Project OPAMRINFR – OP/AMR Infrastructure Expansion – Revision. Of the 200,000 conversions to AMR meters 60,000 will be, or were planned to be, supplied by AEP – Texas. This was part of the justification for the replacement of 200,000 meters. a. How many meters have been received from AEP – Texas to date? b. How many of the meters were received in 2015? c. What did the Company pay for the meters? d. Was the purchase considered an affiliated transaction? If not why not? e. What was the accounting for the transaction?
AEP-BR-INT-4.002	Follow up to Data Request Response BR-INT-1-042 a. How will the additional 22,000 meters plus any other meters held in inventory or purchased to replace failing AMI meters be identified? b. Will any Phase I AMI meters remain after the transfer? c. What FERC Plant account will the above mentioned meters be taken from and recorded to? d. Will the transfer include the reserve for deprecation? e. What is included in the other Net Book Value the Company plans on removing from FERC 370.16 and what FERC account will it be recorded in? f. What will remain in FERC 370.16 after the transfer? g. Where will the Phase II AMI Meters be recorded? h. How will the company determine Net Book Value for the Transfers?

Request #	Request
AEP-BR-INT-4.003	Capital Projects: Follow-up to Data Request BR-INT-2-001, Attachment 2 page 103, Project – TREESOHIO – 2016 Distribution Forestry Program. a. Please confirm that this program does not include any incremental Vegetation specifically exclude from the DIR. b. If the start date and in-service date for this program is 2016 why is it included in the DIR as of 12/31/15?
AEP-BR-INT-4.004	Capital Projects: Follow-up to Data Request BR-INT-2-001, Attachment 2 page 112, Project – TA2012102 – Purchase/Rebuild Major Spare Transmission Equipment. a. What is the accounting criteria the company used to classify the purchases/rebuilds as Capital Spares? b. Has this project or the accounting for Capital Spares been reviewed by either internal or External Auditors and if so please provide the Executive Summary and overall Findings and Recommendations? c. Are rebuilds done in-house or contracted out? d. What is the accounting for an asset that is rebuilt? e. Does the Company track average failure rates? f. If the project is entitled Transmission Equipment why is Distribution Equipment included?
AEP-BR-INT-4.005	Follow-up to Data Request BR-INT-2.001 Attachment 2. Please fully explain what “Included in IRC Presentation” indicates within the Funding category on the Capital Blanket Approval Requisition Form?
AEP-BR-INT-4.006	AFUDC: Follow-up to Data Request BR-INT-1.44 Attachments 1 and 2. Please state whether AFUDC has been stopped on in-active workorders. If not, why not and did that result in any over accrual of AFUDC for any DIR projects?
AEP-BR-INT-4.007	Approvals: Follow-up to Data Request BR-INT-2.001 Attachment 2. Please confirm that all blankets have been Board approved. If not, who approved them?

Request #	Request
AEP-BR-INT-4.008	Approvals: Follow-up to Data Request BR-INT-2.001 Attachment 2 and BR-INT-1.013 Attachment 1. Please provide the titles and PRA Role for the following list of employees who were listed as Required Signatures for the Funding and Approval on many of the Projects. a. Ali,Kamran b. Austin,Alesia A c. Baker,Steven F d. Bass,James E e. Bennett, Sandra S f. Bradish,Robert g. Bradley, Rodney C h. Childs,Michael A i. Conklin,Kellie M j. Duffy,Christopher K k. Feeney,Marc A l. Ferguson,David W m. Fischer,Jennifer L n. Ford,Ronald K o. Gates,Brent M p. Goodwin,Bret R q. Jones,Amy P r. Justus-Lee,James P s. Knowles,Robert W t. Leber,jennifer R u. Middleton,Roy L v. Moor,Mark w. Neal,John M x. Offutt,Robert S y. Romine,William M z. Root,Steven L aa. Ross,Bernard bb. Sartin,David P cc. Sauer,Emi C dd. Smith,A Wade ee. Smith,Scott N ff. Smith,Twana B gg. Spitznogle,Gary O hh. Thomas,Paul R ii. Wasto,Andrew A jj. Weaver III,Thomas F kk. White,Jeffery P ll. Wilcox,Evan R mm. Zeno,Anthony
AEP-BR-INT-4.009	Budget Variance: Follow-up to Data Request BR-INT-2.001. Please provide the budget and actual costs with an explanation of the cost variance +/- 15% for all workorders referenced in BR-INT-2.001.

Request #	Request
AEP-BR-INT-4.010	Justifications: Follow-up to Data Request BR-INT-2.001 Attachment 2. Please provide the project justification for the following list of Projects. WORK ORDER PROJECT ID SECONDARY PROJECT ID LONG DESCRIPTION T0145657 T0147883 A13003153 A13003167 TA2013003 AMSTED RAIL MTRNG INSTALL PTS, CTS, B2500 METER KARL ROAD CB TR 1 Y-WDG 32 REPLACE FAILED DOP0208758 DR13C10E0 DR13C10E0 52322262-ASSET IMPROVEMENT 41839168 P07102009 TP2007102 THIRD STREET TR #12 INSTALL 69KV CKT SWITCHER 41983753 P08070002 TP2008070 Station Equipment
AEP-BR-INT-4.011	Approvals: Follow-up to Data Request BR-INT-2.001 Attachment 2 and BR-INT-1.013 Attachment 1. Please provide the name of the employees who hold the following two PRA Roles: (1) C&DS VP, and (2) OPCo VP.
AEP-BR-INT-4.012	Approvals: Follow-up to Data Request BR-INT-2.001 Attachment 2. Please provide a list of employees that approved the following projects. WORK ORDER PROJECT ID SECONDARY PROJECT ID LONG DESCRIPTION T0147126 A12102520 TA2012102 WACO POLE YARD SP 9.375MVA 34.5/13.09KV DETC T0145657 T0147883 A13003153 A13003167 TA2013003 AMSTED RAIL MTRNG INSTALL PTS, CTS, B2500 METER KARL ROAD CB TR 1 Y-WDG 32 REPLACE FAILED BREAKER 42422186 A13003225 TA2015703 N.LEXINGTON-REPLACE FAILED TFMR 1 42192957 A13213047 TA2013213 BEALL AVENUE - TELECOM LEGACY CIRCUIT UPGRADES DOP0208758 DR13C10E0 DR13C10E0 52322262-ASSET IMPROVEMENT 41839168 P07102009 TP2007102 THIRD STREET TR #12 INSTALL 69KV CKT SWITCHER 41983753 P08070002 TP2008070 Station Equipment T0128437 T0136174 T0138852 T0140583 T0140584 TA1210224 TA2012102 WACO POLE YARD CAP SP SKID STATION #2 WACO POLE YARD CAP SPARE 25MVA 69/13.09KV NON-LTC BIXBYSPARE 42MVA 138-13.8KV W/HV LTC Y-D WACO POLE YARD SPARE 20 MVA 69/34.5KV DETC WACO POLE YARD SPARE 10/12.5 MVA 69/34.5KV DETC
AEP-BR-INT-4.013	Capital Projects: Follow-up to Data Request BR-INT-2.001. Project TP 2012102, pages 112-116, Purchase/Rebuild Major Spare Transmission Equipment - - Revision. a. Please provide the study or other supporting documentation that supports the need to purchase Capital Spares for Ohio Distribution. If available, please provide a list of the Spares purchased. b. Does The Company have a sharing arrangement with other AEP companies for the use of Capital Spares? If so, what is the agreement, and if not, why not?
AEP-BR-INT-4.014	Capital Projects: Follow-up to Data Request BR-INT-2.001. Project TP2011057, pages 89-93, Service to Husky Lima Refinery. Did the installation of the two 75 MVA Transformers produce additional load and a revenue offset sufficient to recoup the cost of the upgrade? If not, why not?
AEP-BR-INT-4.015	Capital Projects: Follow-up to Data Request BR-INT-2.001. Project TP2014163, pages 94-98, Fresh Mark 69kV Service-Canton. Did the installation of the 69kv connection produce an additional 8–10 MVA of load and, therefore, additional revenue?

Request #	Request
AEP-BR-INT-5.001	Variance Analysis: Follow-up to BR-INT-1-016, Attachment 1: Please provide a detailed narrative, including any backup workpapers, explaining the following items: (a) Adjustment for utility account 36000 – Land of $(2,060,464.65) (b) Adjustment for utility account 36010 – Land Rights of $(64,851.74) (c) Retirement for utility account 36600 – Underground Conduit of $(147,282.19). (Concern: The retirements are considerably less than the additions to plant of $17,978,244 for this account.) (d) Retirement for utility account 37000 – Meters of $(12,160,658.44). (Concern: The retirements are considerably large in relationship to the additions of $16,896,881 for this account.) (e) Retirement for utility account 27016 – AMI Meters of $(674,096.46). (Concern: The retirements are greater than the additions of $238,216 for this account.)
AEP-BR-INT-6.001	FIELD VISITS: As a continuation of the audit process, we have selected certain work orders/projects, for field verification from the work order sample. The purpose of the field verification is to determine that the assets have been installed per the work order scope and description. The work order/project selection criteria were primarily assets that can be physically seen. Experienced representatives from the Ohio PUC Staff will conduct the field verifications. To assist Staff in that endeavor, please provide, or have available, the following. a. An individual(s) that can coordinate all the field verification with Staff b. Representatives from FE that can field assist Staff at each field location c. The Project Manager or a person that was responsible for the work on each project available to answer Staff's questions d. Schematics/drawings or any other visual diagram that indicates what was built or installed e. A list of material and or equipment installed along with any applicable serial numbers f. Work Order cost data for direct cost (labor, Material, equipment) If AEP has questions about the selection, or any other requirement, please contact Joe Freedman via e-mail at jfreedman@blueridgecs.com or by phone at 607-280-3737 1) Work Order: W0025272 – South Point Service Center – 10 Acres Project ID: 000022852 Cost: $1,494,404 2) Work Order: 42161717 – Oakland: Install 20 MVA Transf Project ID: DP13C01B0 or DP13C0001 Cost: $3,308,999 3) Work Order: 42155738 – East Broad Street: Install 138/13.2 KV 50 MVA XFMR Project ID: DP14C9B0 or DP14C0009 Cost: $3,089,239 4) Work Order: 42156467 – Neelysville STN Dist – Install XFMR, Bus Regs & New CKT Project ID: PD14C21B0 or DP14C0021 Cost: $2,587,138 5) Work Order: DOP0236897 – 57851446-!8th Street Bridge Duct and Manhole Installation Project ID: DR14C20E0 Cost: $839,167
AEP-BR-INT-7.001	Processes and Controls: Follow-up to BR-INT-1-014, Attachment 1: According to the DIR internal Controls Review, page 4, the resolution to the item of medium significance was that "beginning with the calendar year 2016, AEP Ohio Regulatory management will ensure that a quarterly reconciliation between actual capital expenditures and the Electric Plant In-Service additions utilized in the DIR quarterly revenue requirement calculations is performed." The

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	target date for that reconciliation was listed as April 30, 2016. Please confirm that the reconciliation was performed in fulfillment of this resolution.
AEP-BR-INT-7.002	Rider DIR Exclusion gridSMART II Net Plant Adjustment (Recovered through GS Rider): Follow-up BR-INT-1-002 Attachment 4. Please explain why the book value of gridSMART II changed from $27,844,960.17 as of 12/31/2014 to $26,514,285.74 as of 12/31/15. Please provide the supporting documentation for the explanation provided.
AEP-BR-INT-7.003	Rider DIR Exclusion gridSMART II Net Plant Adjustment (Recovered through GS Rider): Follow-up BR-INT-1-002 Attachment 4. Please provide a reconciliation of the gridSMART excluded in the Rider DIR to the gridSMART recovered through the gridSMART Rider. Please provide copies of the gridSMART Rider Application and Order supporting the amounts excluded in the Rider DIR.
AEP-BR-INT-7.004	Rider DIR Calculation Incremental ADIT/Theoretical Reserve Offset: Follow-up BR-INT-1-002 Attachment 4. Please explain the $139,632,000 amount shown in the DIR calculation and provide supporting documentation for the source of the number.
AEP-BR-INT-7.005	RWIP: Follow-up BR-INT-1-002 Attachment 4. Please provide a reconciliation between the FERC Form 1 RWIP of $(13,696,470) and the $(12,072,542.99) of RWIP in the DIR calculation (tab DIR NBV 12-15).
AEP-BR-INT-7.006	Adjustments to the Workorder Population: Follow-up BR-INT-1-016 Attachment 1: Please provide an explanation of the $(2,125,315.39) identified as Transfer Adjustments.
AEP-BR-INT-7.007	Workorder Testing: Follow-up to BR-INT-02.001 Attachment 4. Please provide “Improvement Estimates” and “Cost Calcs” for the following list of workorders/projects. WORKORDER ID WORKORDER TITLE PROJECT # A. W0025272 South Point Service Center 000022852 B. W0026204 Portsmouth SC 2015 pur Ameritas 000023647 C. 7900299 OPCO Meter Blanket EDN011331 D. DOP0243724 59470606-Replace Defctive MG8 EDN014656 E. DOP0212246 52749716-02 DET Poles EDN014678 F. DOP0227042 53397147-01 Priority A 2163002 EDN014678 G. DOP0230161 56059197-01 REJ 40820896B10110 EDN014678 H. DCS0114392 23654930-Change/Add Street Lig EDN100029 I. 41983753 Forest Station: 69 & 12kV STA P08070002 J. T0146329 Minerva TRU Failure Replacement SI250OHRE
AEP-BR-INT-7.008	Workorder Testing: Follow-up to BR-INT-2-001 Attachment 3 and BR-INT-1-001 Attachments. Please reconcile the “Life to Date ‘Total’ Spend inc CIAC” in BR-INT-2-001 Attachment 3 to the “Activity Cost” found within the Population. Provide and explanation for any differences. PROJECT # PROJECT TITLE PARENT ID LIFE TO DATE "TOTAL" SPEND (INC CIAC) ACTIVITY COSTS FROM POPULATION % OF LIFE TO DATE TO ACTIVITY COST A. 000023103 Rehan of East Side Lima Station Assets-Revision $1,876,805 $1,687,011 11% B. DP15A01B0 Batesville - Rpl Xfmr & Regs DP15A01B0 $797,584 $654,937 22% C. DR13C10E0 OP Ackerman Rd Duct Rplcement DR13C10E0 $1,415,064 $1,387,752 2% D. DR14C0BBU OP/Braodview and Blendon Rpt DR14C0BBU $611,601 $539,897 13% E. DR14C20E0 OP/170/71 Proj2C-18th St Brid DR14C20E0 $1,442,909 $839,167 72% F. DR14TGRA0 Op 112-01 Circuit Insp Repair DR14TGRA0 $573,906 $197,318 191% G. OPAMRINFR OP/AMR Infrastructure Expansion OPAMRINFR $37,589,884 $10,278,334 266%

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AEP-BR-INT-7.009	Workorder Testing: Follow-up to BR-INT-2-001 Attachment 3. Please provide the "Life to Date 'Total' Spend inc CIAC." Provide an explanations of any differences between "Life to Date" vs. "Estimate" that hae a variance of +/-15% for the following list of workorders/projects: WORKORDER PROJECT # PROJECT TITLE PARENT ID A. A13003153 TA1300312 D/OH/Distribution Station Repl TA2013003 B. A13003167 TA1300312 D/OH/Distribution Station Repl TA2013003 C. DP13C01B0 Oakland Inst 20 MVA & 12kV bus DP13C0001 D. DP14C03B0 OP-T/Corridor Sta Dstation DP14C0003 E. DP14C09B0 OP-T/E Broad Station Reg Fdrs DP14C0009 F. DP14C21B0 OP/Neelysville D-Sta rebuild DP14C0021 G. DR11W02F0 CSP/Cols Ar Flash Mitigation ARCFLASHD H. DR15C05E0 DUBLIN I-270 Crossing DR15C0005 I. 41983753 P08070002 TP2008070 J. P14163002 TP1416304 OPCo Distribution Work TP2014163 K. TA1210015 DS/OH/Replace & Refurbihs TA2012104
AEP-BR-INT-7.010	Workorder Testing: Follow-up to BR-INT-2-001 Attachment 4 (It appears that the information provided for the following workorders had information cropped off when the screen prints were developed.) Please provide the missing information and any explanation for the differences between Cost Categories-Removal totals and the Cost Calcs-Total Removal following workorders/projects: WORKORDER ID PROJECT # PROJECT TITLE PARENT ID *TOTAL REMOVAL **TOTAL REMOVAL DIFF OF REMOVALS A. DP14C09B0 OP-T/E Broad Station Reg Fdrs DP14C0009 $448,000 $373,000 $(75,000) B. DP14C21B0 OP/Neelysville D-Sta rebuild DP14C0021 $80,643 $72,743 $(7,900) C. DP15A01B0 Batesville - Rpl Xfmr & Regs DP15A01B0 $222,845 $207,324 $(15,521) D. DR11W02F0 CSP/Cols Ar Flash Mitigation ARCFLASHD $333,354 $293,354 $(40,000) E. P07102009 TP0710206 T/OP/Distr Station Work TP2007102 $1,149 $590 $(559) F. P11057009 TP1105705 D/OP/Distribution Work TP2011057 $20,974 $19,914 $(1,060)

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AEP-BR-INT-7.011	Workorder Testing: Follow-up to BR-INT-2-001 Attachment 2 and BR-INT-2-001 Attachment 4. For the following list of Workorders/projects, please explain why the Total Direct Cost Funding from Attachment 2 does not match Total Direct Capital from the Cost Calcs section of Attachment 4. WORKORDER ID PROJECT # PROJECT TITLE PARENT ID DIRECT COST FUNDING TOTAL DIRECT DIFF A. A12102520 TA1210246 D/OP/Purchase?RebuildMajEquip TA2012102 $147,069,937 $147,041,449 $28,488 B. A13003153 TA1300312 D/OH/Distribution Station Repl TA2013003 $- $53,055,918 $(53,055,918) C. A13003167 TA1300312 D/OH/Distribution Station Repl TA2013003 $- $53,055,918 $(53,055,918) D. A13003225 TA1570314 Dist Station Renew-Refurb OH TA2015703 $81,527,622 $111,586,228 $(30,058,606) E. A13213047 TA1321303 D/OP/Telecom Upgrades TA2013213 $- $71,310,439 $(71,310,439) F. DP13C01B0 Oakland Inst 20 MVA & 12kV bus DP13C0001 $3,128,121 $2,547,167 $580,954 G. DP14C03B0 OP-T/Corridor Sta Dstation DP14C0003 $5,258,316 $2,428,056 $2,830,260 H. DP14C09B0 OP-T/E Broad Station Reg Fdrs DP14C0009 $5,506,297 $2,981,851 $2,524,446 I. DP14C21B0 OP/Neelysville D-Sta rebuild DP14C0021 $3,507,439 $2,302,297 $1,205,142 J. DR11W02F0 CSP/Cols Ar Flash Mitigation ARCFLASHD $16,787,099 $14,308,297 $2,478,802 K. DR13C10E0 OP Ackerman Rd Duct Rplcement DR13C10E0 $- $1,744,819 $(1,744,819) L. DR15C05E0 DUBLIN I-270 Crossing DR15C0005 $1,932,857 $1,903,284 $29,573 M. P07102009 TP0710206 T/OP/Distr Station Work TP2007102 $- $812,970 $(812,970) N. 41983753 P08070002 TP2008070 $1,786,100 $1,786,100 O. P11057009 TP1105705 D/OP/Distribution Work TP2011057 $- $508,357 $(508,357) P. P14163002 TP1416304 OPCo Distribution Work TP2014163 $938,820 $177,214 $761,606 Q. P20110039 TP1011012 D/OP/DIstribution Work TP2010110 $49,539,619 $1,139,396 $48,400,223 R. TA1210015 DS/OH/Replace & Refurbihs TA2012104 $14,475,615 $3,936,149 $10,539,466 S. TA1210224 D/OH/Purchase/Rebuild Maj Eqp TA2012102 $147,069,937 $12,808,883 $134,261,054

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AEP-BR-INT-7.012	Workorder Testing: Follow-up to BR-INT-2-001 Attachment 2 and BR-INT-2-001 Attachment 4. Please explain the differences between Attachment 2 Total Authorized Amounts and Attachment 4 Total Approved Project Costs for the following list of workorders/ projects. WORKORDER ID PROJECT # PROJECT TITLE PARENT ID TOTAL AUTHORIZED TOTAL APPROVED PROJECT COST DIFFERENCE IN APPROVAL $ A. 00004647 OPSectionalizing Program DISTPGMOH $24,767,517 $1,695,878 $23,071,639 B. 000009153 000009153 Forestry OP D base R W TREESOHIO $8,397,621 $4,150,273 $4,247,348 C. A13003225 TA1570314 Dist Station Renew-Refurb OH TA2015703 $131,000,832 $129,647,047 $1,353,785 D. DP13C01B0 Oakland Inst 20 MVA & 12kV bus DP13C0001 $3,873,323 $3,161,410 $711,913 E. DP14C03B0 OP-T/Corridor Sta Dstation DP14C0003 $5,959,245 $2,636,943 $3,322,302 F. DP14C09B0 OP-T/E Broad Station Reg Fdrs DP14C0009 $7,466,243 $3,901,456 $3,564,787 G. DP14C21B0 OP/Neelysville D-Sta rebuild DP14C0021 $4,684,502 $3,135,922 $1,548,581 H. DR11W02F0 CSP/Cols Ar Flash Mitigation ARCFLASHD $21,645,710 $18,728,555 $2,917,155 I. DR15C05E0 DUBLIN I-270 Crossing DR15C0005 $2,418,460 $2,375,486 $42,974 J. DOP0212246 EDN014678 DISTPGMOH $24,767,517 $1,695,878 $23,071,639 K. DOP0227042 EDN014678 DISTPGMOH $24,767,517 $1,695,878 $23,071,639 L. DOP0230161 EDN014678 DISTPGMOH $24,767,517 $1,695,878 $23,071,639 M. P07102009 TP0710206 T/OP/Distr Station Work TP2007102 $124,763,734 $903,890 $123,859,844 N. P11057009 TP1105705 D/OP/Distribution Work TP2011057 $9,842,264 $599,804 $9,242,460 O. P14163002 TP1416304 OPCo Distribution Work TP2014163 $1,140,134 $223,412 $916,722 P. P20110039 TP1011012 D/OP/DIstribution Work TP2010110 $55,002,200 $1,202,645 $53,799,555 Q. TA1210015 DS/OH/Replace & Refurbihs TA2012104 $20,455,317 $5,623,071 $14,832,246 R. TA1210224 D/OH/Purchase/Rebuild Maj Eqp TA2012102 $165,941,412 $13,335,798 $152,605,614

Request #	Request
AEP-BR-INT-7.013	Workorder Testing: Follow-up to BR-INT-2-001 Attachment 2 and BR-INT-2-001 Attachment 4. Please explain the differences between Attachment 2 (Component CI's Total Authorized ($)) and Attachment 4 (Total Approved Project Costs) for the following list of workorders/projects: WORKORDER ID PROJECT # PROJECT TITLE PARENT ID BR-INT-2.001 ATT 2 AUTHORIZED TOTAL FOR PROJECT # BR-INT-2.001 ATT 4 TOTAL APPROVED PROJECT COST2 A. 00004647 OPSectionalizing Program DISTPGMOH Page 119 $861,220 Page 1 $1,695,878 B. 000009153 000009153 Forestry OP D base R W TREESOHIO Page 105 $4,065,547 Page 11 $4,150,273 C. A12102520 TA1210246 D/OP/Purchase?RebuildMajEquip TA2012102 Page 7 $- Page 29 $165,941,412 D. A13003153 TA1300312 D/OH/Distribution Station Repl TA2013003 Page 13 $13,662,508 Page 32 $70,274,927 E. A13003167 TA1300312 D/OH/Distribution Station Repl TA2013003 Page 18 $13,662,508 Page 35 $70,274,927 F. A13003225 TA1570314 Dist Station Renew-Refurb OH TA2015703 Page 23 $5,100,906 Page 38 $129,647,047 G. A13213047 TA1321303 D/OP/Telecom Upgrades TA2013213 Page 28 $52,115,308 Page 41 $80,673,838 H. DP13C01B0 Oakland Inst 20 MVA & 12kV bus DP13C0001 Page 35 $3,161,410 Page 44 $3,161,410 I. DP14C03B0 OP-T/Corridor Sta Dstation DP14C0003 Page 39 $2,636,943 Page 47 $2,636,943 J. DP14C09B0 OP-T/E Broad Station Reg Fdrs DP14C0009 Page 43 $3,901,456 Page 49 $3,901,456 K. DP14C21B0 OP/Neelysville D-Sta rebuild DP14C0021 Page 47 $3,135,922 Page 51 $3,135,922 L. DR11W02F0 CSP/Cols Ar Flash Mitigation ARCFLASHD Page 54 $18,728,555 Page 55 $18,728,555 M. DR15C05E0 DUBLIN I-270 Crossing DR15C0005 Page 70 $2,375,486 Page 65 $2,375,486 N. P07102009 TP0710206 T/OP/Distr Station Work TP2007102 Page 81 $4,416,300 Page 83 $903,890 O. 41983753 P08070002 TP2008070 Page 86 $1,915,500 None P. P11057009 TP1105705 D/OP/Distribution Work TP2011057 Page 81 $599,804 Page 87 $599,804 Q. P14163002 TP1416304 OPCo Distribution Work TP2014163 Page 96 $223,412 Page 89 $223,412 R. P20110039 TP1011012 D/OP/DIstribution Work TP2010110 Page 101 $1,202,645 Page 91 $1,202,645 S. TA1210015 DS/OH/Replace & Refurbihs TA2012104 Page 110 $5,623,071 Page 95 $5,623,071 T. TA1210224 D/OH/Purchase/Rebuild Maj Eqp TA2012102 Page 114 $1,335,798 Page 97 $13,335,798

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AEP-BR-INT-7.014	Workorder Testing: Follow-up to BR-INT-2-001 Attachment 4. Please provide estimates for cost of construction, (material, labor), AFUDC, overheads, retirements, cost of removal, salvage and CIAC's for the following workorders. WORKORDER ID PROJECT ID PARENT ID A. DOP0201022 000007576 000007576 B. DOP0219050 000007576 000007576 C. DOP0232084 000007576 000007576 D. W0025272 000022852 000022852 E. W0026204 000023647 000023647 F. 42404625 DP15A01B0 DP15A01B0 G. 07900299 EDN011331 EDN011331 H. DOP0243724 EDN014656 EDN014656 I. DCS0114392 EDN100029 EDN100029 J. 41983753 P08070002 TP2008070
AEP-BR-INT-7.015	Workorder Testing: Follow-up to BR-INT-2-001 Attachment 2. For the following list of workorders/ projects please provide the same type of report as you did in Attachment 2 for the other workorders at a project levels: (if the information is unavailable – please explain why) i. Approval ii. Project justification WORKORDER ID PROJECT ID PARENT ID A. DOP0201022 000007576 000007576 B. DOP0219050 000007576 000007576 C. DOP0232084 000007576 000007576 D. DOP0215904 000007817 X00000054 E. 42049837 000022717 000022717 F. T0144765 000022718 000022718 G. 42102861 000022719 000022719 H. W0025272 000022852 000022852 I. W0026204 000023647 000023647 J. 07900299 EDN011331 EDN011331 K. DOP0243724 EDN014656 EDN014656 L. DCS0114392 EDN100029 EDN100029
AEP-BR-INT-7.016	Follow-up to BR-INT-1-001 attachment 1 and BR-INT-2-001 attachments 5 and 8. Work Order 41839168 THIRD STREET TR #12 INSTALL 69KV CKT SWITCHER. The cost detail in attachments 5 and 8 ($902,741.93) did not equal the sample in attachment 1 of ($900,183.11). The difference does not appear to be retirements. Please explain the difference.
AEP-BR-INT-7.017	Follow-up to BR-INT-2-001 attachment 5. Work order 7900299: OPCO. PURCHASE METERS & CAPITALIZE INITIAL INSTALL COST: The cost detail (attachment 5) indicates that 4955 meters were recorded at a total cost of $5,924,249 for an average cost of $1,195 per meter. a. Does the work order include an estimated or actual installation cost? b. What is the average meter cost without the estimated or actual installation costs? c. Please explain why the meter costs were so high in relationship to the detail provided in response to Data Request BR-INT-1-032, attachment 1. d. If the company uses an estimated installation cost, then when a meter is installed, is the actual cost for that activity expensed? If not, why not?

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AEP-BR-INT-7.018	Follow-up to BR-INT-2-001 attachments 8. Work order 7900299: OPCO. PURCHASE METERS & CAPITALIZE INITIAL INSTALL COST: The cost detail in attachment 8 included approximately $669,609.09 for costs associated with "interco asset transfer." Please explain the following: a. What does the interco asset transfer represent? b. What Company was the meters purchased from? c. If the interco asset transfer is for the purchase of meters, please provide the detail of that transaction. d. Was the purchase of meters from an affiliate the lowest cost alternative for the company? Please provide support for that decision. e. If the meters were purchased from an affiliate, and were used meters or new meters previously purchased but not set, was the accumulated reserve for depreciation transferred with the cost? If not, how was the transaction recorded, what vintage year was used, and what was the average service life used for depreciation purposes?
AEP-BR-INT-7.019	Follow-up to BR-INT-2-001 attachment 5. Work order W0025665: Purchase AMR Meters. The cost detail (attachment 5) indicates that 28,611 meters were purchased at a total cost of $10,698,170 for an average cost of $417.72. a. Does the work order include an estimate or actual for installation costs? b. What is the average meter cost without the estimated or actual install costs? c. If installation costs are not included, please explain why the meter costs were so high in relationship to the detail provided in response to Data Request BR-INT-1-032, attachment 1.
AEP-BR-INT-7.020	Follow-up to BR-INT-2-001 attachments 5. Work order 41983753: Station Equipment. The cost detail (attachment 5) totals $8,733 and the sample in BR-INT-2-001, attachment 1 indicates $1,490,587. Please explain the difference.
AEP-BR-INT-7.021	Follow-up to Data Request BR-INT-2-001 attachment 5. The following work orders were in-service greater than 90 days after the majority of the charges were recorded to the work order. Please explain the reason(s) for the delay beyond 90 days. Also, please explain how leaving a work order open for longer than 90 days conforms to company policy. d. Work Order 42155738: EAST BROAD STREET: INSTALL 138/13.2 KV 50 MVA XFMR. $3,063,891.57 was recorded (added) June 2015. The entire workorder of $3,089,239.08 was not in service until December 2015. Therefore, 99% of the charges were recorded in June 2015. e. Work order 42156467: NEELYSVILLE STN DIST – INSTALL. $2,531,968.44 was recorded (added) May 2015 The entire work order in-service December 2015 for $2,587,137.64. Therefore, 98% of the charges were recorded in May 2015. f. Work Order 42195786: INSTALL A NEW 50 MVA. $2,848,104.07 was recorded (added) July 2015. The entire Work order of $2,853,020.73 was in-service December 2015. Therefore, 97% of the charges were recorded in July 2015. g. Work Order 42290831: FRESH MARK 69KV REVENUE METERING. $147,422.78 was recorded (added) June 2015. The entire Work order of $113,274.91 was in-service October 2015. Therefore, 78% of the charges were recorded in June 2015. h. Work Order 42293499: EAST SIDE LIMA: DIR 2014. $1,686,141.61 was recorded (added) March 2015. The entire Work order for $1,687,011.19 was in-service August 2015. Therefore, 99% of the charges were recorded in March 2015. i. Work Order DOP0208758: 52322262-ASSET IMPROVEMENT. $1,384,692.15 was recorded (added) July 2015. The entire Work Order for $1,387,751.93 was in-service December, 2015. Therefore, 99% of the charges were recorded in July 2015.

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AEP-BR-INT-7.022	Follow-up to Data Request BR-INT-2-001 attachment 6. Please explain why the following work orders appear to be replacement work orders and do not have retirements and/or cost of removal recorded? a. Work order T0144765, project 000022718. TILTONSVILLE -CP WO-REPLACE CB'S 'A' & 'B' - DIR PROGRAM b. Work order 42102861, project 000022719: OH DIR 2013. HIGHLAND(CS):REPL 13.2KV 3-PH REG 154-01 c. Work order 42404625, project DP15A01B0: OH DIR 2013. HIGHLAND(CS):REPL 13.2KV 3-PH REG 154-01
AEP-BR-INT-7.023	Follow-up to Data Request BR-INT-2-001 attachment 7: Please provide a definition for the following Cost Elements: a. Number 141: Incentive Accrual EVP Level b. Number 145: Stock Options c. Number 153: Stock Option charges d. Number 154: Restricted Stock Incentives e. Number 155: Trans Incentives f. Number 158: ES Generation Incentives.
AEP-BR-INT-7.024	Follow-up to Data Request BR-INT-2-001, d and Attachments 7 and 8: Please explain why the cost for one or more of the Cost Elements (attachment 7) listed above, and included in the cost detail (attachment 8), for the following work orders should be charged to the DIR. a. Work order 41983753 – Station Equipment b. Work order 42049837 – FINDLAY – ELELCTRICAL ANIMAL FENCE c. Work order 42155738 – EAST BRAOD STREET: INSTALL 138/13.2 KV 50 MVA XFMR d. Work order 42161717 – OAKLAND: INSTALL 20 MVA TRANSF e. Work order 42192957 – BEALL AVENUE – TELECOM LEGACY CIRCUIT UPGRADES f. Work order 42293499 – EAST SIDE LIMA: DIR 2014 IN-SERVICING ONLY WORKORDERS g. Work order 42422186 – N.LEXINTON-REPLACE FAILED TFMR 1 h. Work order 41839168 – THIRD STREET TR #12 INSTALL 69KV CKT SWITCHER i. Work order DCS011439 – 2365493-CHANGE/ADD STREET LIGHT -BEVERLY j. Work order DOP022704 – 53397147-01 PROIRTY A 216300250255 k. Work order DOP022867 – 56170974-TV 42C F-207 PROTECTOR INSTALL l. Work order W0025973 – OPCO D Forestry – 2015 Program m. Work order DOP023321 – 5699702-2015 Sectionalizing Program -0031072 n. Work order DCS011439 – 23654930-CHANGE/ADD STREET LIGHT -BEVERLY o. Work order DOP020875 – 52322262-ASSET IMPROVEMENT p. Work order DOP022119 – 54627006-RECONDUCTOR MADISON F 802 q. Work order DOP022330 – 55160631-11 BLOCK SPRING STREET, SECONDARY CABLE REPLACEMENT r. Work order DOP022704 – 53397147-01 PRIORITY A 216300250255 s. Work order DOP023016 – 56059197-01 REJ 40820896B10110 t. Work order W0025665 – Purchase AMR meters and pay Contractor invoice. No labor charges to be applied
AEP-BR-INT-7.025	Prior Audit Recommendations: Please provide a status on the resolution(s) and recommendation(s) raised in the following identified proceedings: a. Reference Case No. 15-066-EL-RDR, Compliance Audit of the Distribution Investment Rider of the Ohio Power Company, submitted August 6, 2015 Baker-Tilly Recommendations supported by Staff 1. Minor edits should be made to the DIR quarterly filings for greater clarity a. Specify which rider rather than merely refer to “rider” b. 2014 Q4 filing, line 35, reads “lesser of lines 25 & 27” instead of “lesser of lines 31 & 33” c. 2014 Q4 filing, line 37, should read “based on January 2015 actuals”

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	2. Show the actual monthly DIR revenues as an additional column to the Revenue Requirement in its next DIR update filing to show the total revenue requirement under-collection through each month of the DIR. 3. For the sake of clarity, calculate the DARR True-Up revenue separately from the (over)/Under collection calculation that compares the DIR revenues from the DIR Revenue Requirement. Staff Recommendations 1. AEP Ohio should describe, as part of the 2016 DIR Plan, its efforts to improve planning coordination among AEP Ohio's Distribution, Transmission, and Station organizations. b. Reference Case No. 14-255-EL-RDR, Regulatory Compliance Audit of the 2013 Distribution Investment Rider (DIR) of Ohio Power Company, D/B/A AEP-OHIO, submitted June 19, 2014 Larkin Recommendations supported by Staff: 1. Reconciliation of DIR Plan capital expenditures to Rider DIR Distribution Plant changes be prepared by the Company for each year during which Rider DIR remains in effect. 2. DIR Plan reports should include only Ohio distribution spending. No amounts for distribution spending at Wheeling Power should be included in the Ohio DIR Plan reports. c. Reference Case No. 13-419-EL-RDR, Opinion and Order April 23, 2014, and Amended Stipulation and Recommendation dated January 17, 2014: DIR Reduction 1. Upon approval of this Stipulation, AEP Ohio agrees to reduce the December 2012 DIR revenue requirement by $6,154.39 so that the rider recommended by the signatory parties for adoption is 11.93845% of Base Distribution Rates, such that a corresponding adjustment will be made in the quarterly update that follows the decision adopting the stipulation. The adjustment reflects the removal of commercial activity tax on equity from the pretax weighted average cost of capital component of the carrying charge rate, removal of the Commission and OCC assessment, and exclusion of land held for future use. This aggregate adjustment was agreed to as part of a compromise and settlement of all of the financial issues except for the AMI meters, which are addressed separately below. AMI meters 2. The Signatory Parties recommend that the additional 22,000 AMI meters, that were installed after completion of the Phase 1 gridSMART rider, should be recovered through the gridSMART Phase 2 rider going forward, to the extent it is approved by the Commission and subject to the following implementation terms: a. AEP Ohio will make a filing in the pending gridSMART Phase 2 rider update case, Case No. 13-1939-EL-RDR, within 30 days of finalizing this stipulation recommending recovery of the 22,000 AMI meter investment as part of the decision in that case. b. Upon a decision, in Case No. 13-1939-EL-RDR, approving the inclusion of the 22,000 AMI meters in the gridSMART Phase 2 rider, AEP Ohio will record a DIR adjustment to exclude the investment at the same time it files its compliance tariffs to update the gridSMART Phase 2 rider. This adjustment will be included in AEP Ohio's next quarterly DIR adjustment filing. c. Upon the future filing of the additional reduction to the DIR related to moving recovery of the 22,000 AMI meter investment to the gridSMART Phase 2 rider, the DIR will be reduced by the net book value of the additional meters at that time. That adjustment will be reflected in the next quarterly filing. The signatory arties understand that the DIR is also subject to further adjustment based on future filings by the Company.

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AEP-BR-INT-8.001	Staff Recommendations from Case No. 13-2385-EL-SSO : Reference: Case No. 13-2385-EL-SSO, Staff Recommendations Approved by the Commission in Opinion and Order dated February 25, 2015, pages 46-47 and the Prefiled Testimony of Doris McCarter (Staff Exhibit 17, pages 5-7. The Commission ordered the DIR be modified to adopt six recommendations made by Staff. Please provide a status of each of the following Staff recommendations approved by the Commission. Has the recommendation been implemented? If not, when will it be implemented? a) Detailed account information: AEP should file what plant in service is being recorded and recovered in the Enhanced Vegetation Rider, the gridSMART Phase II Rider and the Solar Rider (and any other rider which is recovering Distribution plant in service). AEP should provide this information by Plant Account and Sub account for each rider. Providing this information to the Commission is critical because it will allow Staff to ensure that no plant in service costs related to other riders are being recovered in the DIR. b) Jurisdictional allocations and accrual rates: Require AEP to use the jurisdictional allocations and accrual rates for each account and subaccount that was approved in AEP's prior AIR case, subject to Staff's exception for gridSMART depreciation rates c) Reconciliation between functional ledgers and FERC form filings: In each DIR filing, AEP should include, for each account and subaccount, a full reconciliation between the functional ledger and FERC form filings as well as detailed workpapers showing the jurisdictional allocation, accrual rates and reserve balances of each account and subaccount. AEP should be directed to provide this information for any rider being used to collect costs recorded in the Distribution Plant Accounts, by rider and as a grand total. Commission Staff needs this information to determine whether the appropriate allocation of cost recovery is occurring between the DIR and other riders. This information will also help Staff ensure that the Company is adhering to the accrual schedules ordered in the previous rate case. d) Revenue collected by month in the DIR: AEP should also be directed to detail the DIR revenue collected by month and to date in its filings to demonstrate compliance with the annual revenue caps authorized by the Commission. e) Highlighting and quantifying DIR capitalization policy: Any further changes AEP proposes to make to its capitalization policy should be highlighted and quantified in the DIR filing preceding the implementation of the change. This would allow the Commission to consider the proposed change and ensure that there is no inappropriate recovery from AEP customers. f) Filing of an updated depreciation study by November 2016: AEP to file a fully updated depreciation study by November 2016 with a study plant date of December 31, 2015.
AEP-BR-INT-8.002	OCC Property Taxes Recommendations from Case No. 13-2385-EL-SSO: Reference: Case No. 13-2385-EL-SSO, OCC Recommendations Approved by the Commission in Opinion and Order dated February 25, 2015, page 46 and the Prefiled Testimony of David Effron (OCC Exhibit 18, pages 8-11. The Commission ordered the DIR property tax be modified as follows: For the purpose of calculating property taxes, the depreciation reserve should be adjusted to eliminate the cumulative amortization of the excess depreciation reserve since December 31, 2011 (when rates in Case Nos 11-351-EL-AIR and 11-352-EL-AIR went into effect). This will reflect the change in the base on which property taxes are calculated more accurately and net plant to which the property tax is applied. a) Please provide a status of change in the calculation of property taxes approved by the Commission. b) Was the modification to the calculation of property taxes made in the 2015 Rider DIR filings? If not, when will it be made? c) Please provide the depreciation reserve prior to December 31, 2011, that should be removed prior to applying the property tax rate.

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AEP-BR-INT-8.003	GridSMART Phase I Transfer: Reference: Case No. 13-2385-EL-SSO, Opinion and Order dated February 25, 2015, page 52. The Commission approved the Company's request to transfer gridSMART Phase I capital costs to the DIR mechanism upon the Company's accounting for all USDOE reimbursements. After the Commission has reviewed and reconciled the gridSMART Phase I costs, the Company may transfer the approved capital costs balance into the DIR, which will not be subject to the DIR caps, and may also transfer any unrecovered O&M balance into the gridSMART Phase 2 rider. Please provide a status of the transfer.
AEP-BR-INT-9.001	SOX Compliance: Follow-up to DR 2-002: According to DR 2-002, one control was rated as a deficiency. Has the Company taken steps to address and/or rectify the deficiency? If so, please describe the steps taken to address the deficiency. If not, either provide the expected timing for addressing the deficiency or provide the reason(s) the Company is not going to address the deficiency.
AEP-BR-INT-10.001	**Return**: Follow up to DR 1-030. The Company response states that in the February 25, 2015 Opinion and Order in Case No. 13-2385-EL-SSO, the Commission adjusted the return component to 10.54%. A review of the February 25, 2015, Opinion and Order, page 84, states that the Commission approved an ROE of 10.20%. The actual return component of 10.54% is not within the Opinion and Order. a. Please updated the calculation below that results in the 10.54% return used in the DIR. b. Please explain any differences from the table below and provide a cite showing the Commission's approval of that change.

1st Quarter 2015

Description	% of Total Capital	Embedded Cost	Revenue Tax Conversion	Pre-Tax WACC
Long Term Debt	47.72%	5.46%	1.000000	2.61%
Common Stock	52.28%	10.20%	1.566344	8.35%
Total	100.00%			10.96%

2nd, 3rd and 4th Quarter 2015

Description	% of Total Capital	Embedded Cost	Revenue Tax Conversion	Pre-Tax WACC
Long Term Debt	52.50%	6.05%	1.000000	3.18%
Common Stock	47.50%	10.20%	1.566344	7.59%
Total	100.00%			10.77%

APPENDIX D: WORK PAPERS

Blue Ridge's workpapers are available on a compact diskette (CD) and were delivered to the PUCO Staff per the RFP requirements. Workpapers that support Blue Ridge's analysis are listed below.

- 2012 Response Blue Ridge 4-001 Attachment 1.xls
- 2012 Response Blue Ridge 4-001 Attachment 2.xls
- 2012 Response Blue Ridge 4-001 Attachment 3.xls
- 2012 Response Blue Ridge 4-001 Attachment 4.xls
- 2012 Response Blue Ridge 4-001 Confidential Attachment 8.pdf
- 2012 Response Blue Ridge 4-001 Confidential Attachment 9.pdf
- BRCS AEP 2015 DIR Audit Workorder Testing Matrix
- Field Observation Folder (notes and pictures)
- Unitization from FERC 106 to FERC 101.docx
- WP 2013 DR-1-015 Attachment 1.pdf
- WP 2013 DR-1-015.pdf
- WP 2015 Sample Size Calculation.xls
- WP BR-INT-1-001 Attachment 1 (Step 1-Removing Subtotals).xlsx
- WP BR-INT-1-001 Attachment 1 (Step 2-Extra Tabs Removed).xlsx
- WP BR-INT-1-001 Attachment 1 (Step 3-Pop Pivot-Sample WO listed).xlsx
- WP BR-INT-1-001 Attachment 1 (Step 4-Sample Pulled).xlsx
- WP BR-INT-1-001 Attachment 1 (Step 5-JNF Judgement).xlsx
- WP BR-INT-1-002 Attachment 1
- WP BR-INT-1-002 Attachment 2
- WP BR-INT-1-002 Attachment 3
- WP BR-INT-1-002 Attachment 4 - DIR Verification and Adjustment.xlsx
- WP BR-INT-1-003 Attachment 1.xlsx
- WP BR-INT-1-038 - Exclusions.xlsx
- WP BR-INT-1-038 Attachment 1.xlsx
- WP BR-INT-1-044 Attachment 1 (inactive workorders)
- WP BR-INT-1-044 Attachment 2 (inactive workorders)
- WP BR-INT-2-001 Attachment 5 (T5)
- WP BR-INT-2-001 Attachment 8 (to Remove Certain Cost Elements from DIR)
- WP BR-INT-7-009 Attachment 1
- WP Tables for Report

The following personnel had key roles supporting the Rider DIR. Blue Ridge conducted interviews in 2013. The Interview Notes were provided in Blue Ridge's previous audit workpapers. While titles have changed, these individuals maintained their roles in supporting the DIR.

Table 14: AEP-Ohio Personnel Interviewed

#	Name	Position
1	Andrea Moore	Director Regulatory Services
2	Jack Kincaid	Accounting Operations Senior Manager
3	Shannon Liggett	Allocations Manager
4	Judson Schumacher	Director T&D Procurement
5	Janet Swanger	Property Accounting Manager
6	Joel Trad	Director Distribution Engineering
7	John Woellert	Administrator Regulatory Assets