BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	
Ohio Power Company to Initiate	)	
Phase II of Its gridSMART Project	)	Case No. 13-1939-EL-RDR
and to Establish the gridSMART	)	
Phase II Rider	)	

REPLY BRIEF OF OHIO POWER COMPANY

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Ohio Power Company ("AEP Ohio" or the "Company") submits this reply brief in support of the Stipulation and Recommendation ("Stipulation") filed in this proceeding and in response to the initial briefs filed by the Office of the Ohio Consumers' Counsel ("OCC") and Ohio Partners for Affordable Energy ("OPAE").

As described in AEP Ohio's initial brief, the proposed gridSMART Phase 2 deployment will lead to significant benefits. Specifically, the record in this proceeding demonstrates that the proposed gridSMART Phase 2 deployment will lead to more than $1 billion in customer value attributable to reduced customer minutes of interruption from DACR deployment, $210 million in customer bill savings attributable to energy and capacity savings from VVO deployment, and nearly $200 million in operational savings attributable to AMI deployment. (*See, e.g.,* AEP Ohio Ex. 1, Osterholt Direct, Ex. SSO-1 at 9.) OCC and OPAE offer no reason to question these significant benefits. To the contrary, as described below, the arguments raised by OCC and OPAE (many of which AEP Ohio already addressed in its initial brief) are misguided and do not withstand scrutiny. The Stipulation should be adopted and approved.

I. THE STIPULATION IS THE PRODUCT OF SERIOUS BARGAINING AMONG CAPABLE, KNOWLEDGEABLE PARTIES

A. There is no "diversity of interests" requirement, and even if there were, the Stipulation would satisfy it. [OCC III.A (pp. 4-6)]

As discussed in the Company's Initial Brief (at 4-6), the first prong of the three-part test asks whether a settlement is "a product of serious bargaining among capable, knowledgeable parties." Opinion and Order at 21, Case No. 09-1089-EL-POR (May 13, 2010) ("*In re Columbus S. Power Co.*"). The Stipulation here satisfies that standard, as already outlined in detail in the

Company's Initial Brief (at 6-8). As expected, OCC argues on brief (as it did in testimony) that the Commission should consider and enforce a requirement that the Stipulation represent a diversity of interests that must include support from the residential customers. (OCC Br. at 4-6.) While OCC invokes some cases where the Commission has discussed diversity of interests in the context of evaluating a stipulation under the three-part test (OCC Br. at 5 n.16), it does not (and cannot) cite any Commission precedent that applies a diversity of interests requirement as a condition to adopting a settlement – let alone a requirement that is interpreted or applied in a manner that mandates OCC's support.

Indeed, even OCC witness Lanzalotta acknowledged that the Commission declined to add the "diverse parties" requirement to the test – yet he still thinks that the lack of diverse parties "maybe" could cause a Stipulation to fail part one of the three-part Stipulation test. (Tr. II at 297-298.) He was not sure the extent to which another party besides OCC can satisfy the OCC's "diverse parties" criteria for residential customer representation, though he is also not aware of any veto power possessed by OCC to block a Stipulation. (Tr. II at 299-300.)

Rather, the Commission has repeatedly rejected OCC's attempts to obtain veto power over settlements. The Commission has made clear: "The Commission will not require OCC's approval of stipulations." Opinion and Order at 18, *In re Complaint of Dominion Retail v. Dayton Power & Light Co.*, Case Nos. 03-2405-EL-CSS et al. (Feb. 2, 2005) ("*Dominion Order*"); *see also* Opinion and Order at 10, *In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 13-1571-GA-ALT (Feb. 19, 2014); Opinion and Order at 26, *In re FirstEnergy*, Case No. 12-1230-EL-SSO (July 18, 2012); Entry on Rehearing at 7-8, *In re FirstEnergy*, Case No. 12-1230-EL-SSO (Mar. 23, 2005). In any case, the Stipulation includes multiple parties that represent residential customers – as well as a broad coalition of other customer groups and interests. So, even if a "diversity of interest" were required (it is not), the Stipulation here would easily fulfill that criterion as shown on pages 7-8 of the Company's Initial Brief.

B. The Stipulation provisions related to VVO deployment in no way undermine the seriousness of the negotiations leading up to the Stipulation. [OCC III.A (pp. 6-8)]

OCC also argues that certain provisions that were "pre-ordained" from the PPA Stipulation (Case Nos. 14-1693-EL-RDR et al.) draws into question the degree of seriousness of the negotiations leading up to the Stipulation. (OCC Br. at 6-8.) More specifically, OCC views negatively the commitment to increase VVO investment to cover a larger number of circuits and claims that it increased the overall price tag that consumers would pay (over OCC's objection). On the contrary, the Company's agreement to pursue additional VVO investment was viewed by Staff and intervenors as a significant added benefit. OCC witness Lanzalotta agreed that there would be reduced generation costs for customers with VVO and avoided O&M through continuous voltage monitoring through the combination of VVO and AMI. (Tr. II at 314-317.) OCC witness Lanzalotta also acknowledged that the proposed gridSMART Phase 2 deployment would help lower carbon emissions, through less truck rolls and less generation production. (Tr. II at 316.) Deploying a cost-effective technology that reduces generation costs and carbon emissions is a beneficial commitment, and OCC's portrayal of the VVO commitment as undercutting the seriousness of the negotiations in this case is without merit.

A related argument advanced by OCC is that the Stipulation allows the Ohio Hospital Association (OHA) "to help decide" where VVO deployment will occur first. (OCC Br. at 7.) In reality, it is the Company that decides where the deployments will occur – not OHA. Moreover, OCC fails to mention that the involved provision of the Stipulation also requires the Company to gather Staff's input into the same set of decisions. (Jt. Ex. 1 at 7 (Stipulation § IV.3).) OCC goes on to complain about the VVO deployment under the Stipulation providing "disproportionately high benefits for OHA members (compared to benefits for residential consumers)." (OCC Br. at 8.) This complaint is mind boggling given that hospital facilities are used exclusively by people (*i.e.*, residential consumers) that need medical services – by definition, none of the hospital customers are industrial consumers or commercial consumers. OCC's apparent criticism from getting input from public health organizations is misguided.

C. The Stipulation's proposed resolution of the Company's 2009 SEET obligation is appropriate and consistent with Commission precedent. [OCC III.A (pp. 8-9), OPAE VI]

The Signatory Parties jointly recommend that the VVO investment resolves the Company's outstanding obligation for renewable or similar investment associated with the *2009 SEET Case* (Case No. 10-1261-EL-UNC, January 11, 2011 Opinion and Order). (Jt. Ex. 1 at 6-7.) OCC and OPAE challenge this provision[1] based on two false presumptions: (i) that the 2009 SEET decision required the Company to make an unreimbursed investment of $20 million, and (ii) that the Company would otherwise have had significantly excessive earnings for 2009 of $20 million. (OCC Br. at 8-9; OPAE Br. at 12-13.) OCC requests that the $20 million VVO investment be excluded from recovery under the gridSMART Phase 2 Rider. (OCC Br. at 9.) OPAE requests that the Commission find that the VVO commitment does not satisfy the 2009 SEET obligation and should be returned to customers if a suitable investment cannot be found. (OPAE Br. at 13.)

As will be shown, however, the decision in the *2009 SEET Case* cannot be reasonably interpreted in the manner advocated by OCC and OPAE. And because the additional VVO deployment is a voluntary investment in energy efficiency for the distribution grid – above and beyond any statutory mandate or obligation to provide service – the Stipulation's VVO

[1] It is not readily apparent why OCC advances its challenge under the first prong of the three-part test, but the Company is responding in the same context.

commitment has value akin to a renewable investment and should be accepted in fulfillment of the outstanding obligation. Staff and other parties saw this value and agreed to jointly recommend that the VVO investment is a valid basis to "check the box" that the $20 million investment commitment from the *2009 SEET Case* is fulfilled. (Jt. Ex. 1 at 7.) While the $20 million investment commitment dates back to 2011 (when the Commission decided the *2009 SEET Case*), the Company has tried multiple times to pursue investments that would qualify. More recently, the Commission acknowledged the Company's intent to propose an investment in this proceeding to satisfy the obligation – and it explicitly indicated its willingness to consider resolving the issue here. Opinion and Order at 15, Case No. 12-3255-EL-RDR (Apr. 2, 2014) ("*Storm Rider Case*"). (Tr. I at 218-220.)

In the *2009 SEET Case*, AEP Ohio's conditional commitment to the Turning Point Solar (TPS) project was one of several factors that the Commission took into account when it established a return on equity ("ROE") threshold. Specifically, the Commission stated:

> CSP continues its innovation efforts and dedication to Ohio's energy policy by its commitment to provide $20 million in funding to a solar project in Cumberland, Ohio. Not only will this project advance the state's energy policy, but it will also bring much needed economic development activity to Ohio. Various parties noted that this commitment was contingent on several other factors and questioned the appropriateness of giving any consideration to this investment. The Commission remains confident that this project will move forward and the funds will be expended for this project in the near future. Nevertheless, should this project not move forward in 2012, such that the funds are expended in 2012, the Commission requires the $20 million to be spent in 2012 on a similar project.

2009 SEET Case, Opinion and Order at 26-27.

In its entry on rehearing in the *2009 SEET Case*, the Commission reaffirmed its positive consideration of the $20 million TPS project capital commitment in its establishment of CSP's SEET threshold ROE, and it also allowed that some flexibility in the schedule by which AEP Ohio would make the investment was appropriate:

> As part of the Commission's application of the SEET, the Commission gave consideration to CSP's future committed capital expenditure in the [TPS] project. Given the Commission's consideration of CSP's expenditure in a solar project in the development of the 2009 SEET threshold, it is reasonable for the Commission to require that the expenditure occur by a date certain. However, we agree that CSP should propose, during the course of its next ESP proceeding, a firm schedule setting forth its expenditure in the [TPS] project or other similar project.

2009 SEET Case, Entry on Rehearing at 10 (Mar. 9, 2011). On December 6, 2012, the Supreme Court of Ohio affirmed the Commission's 2009 SEET Order. *See In re Application of Columbus S. Power Co.*, 2012-Ohio-5690, ¶ 2. The Commission's consideration of the TPS project capital commitment in the establishment of CSP's SEET threshold ROE was not a subject of that appeal. Accordingly, the Commission's consideration of that capital expenditure commitment became final at that point.

Subsequently, in the *2010 LTFR Case*, the Commission found it appropriate "to direct AEP Ohio to expend $20 million to the extent the Company has not already done so, and provide an updated status report regarding Turning Point or another investment in a similar project to Staff approval, by the end of 2013." Opinion and Order at 28, Case No. 10-501-EL-FOR (Jan. 9, 2013). As referenced above, the Commission more recently acknowledged the Company's latest efforts to resolve the 2009 SEET obligation through a proposal in this proceeding. *Storm Rider Case*, Opinion and Order at 15. (*See also* Tr. I at 218-220.) Of course, the case at bar has been pending since 2013 and is now being presented for resolution in 2016. Thus, the Company has diligently pursued – on an ongoing basis – efforts to resolve the $20 million investment obligation in a renewable or similar project. The Signatory Parties reasonably agree and jointly recommend in the Stipulation that the VVO investment qualify and serves to fulfill that obligation.

As described above, the 2009 SEET Order considered AEP Ohio's commitment to invest $20 million in the TPS project or a similar project – along with a long list of other factors – in establishing the threshold level of earnings above which it would consider any additional earnings as significantly excessive. *2009 SEET Case*, Opinion and Order at 25-27. The *2009 SEET Case* decision considered AEP Ohio's plan to make a $20 million capital investment – either on the TPS project or a similar project. It did not direct AEP Ohio to refund $20 million directly to customers. That approach was consistent with the SEET statute, R.C. 4928.143(F), which requires the Commission to consider "the capital requirements of future committed investments in this state" and conveys flexibility on the Commission to permit an EDU to retain earnings that might otherwise be considered to be significantly excessive where an EDU has committed to make capital investments in Ohio. Nothing in the SEET statute, however, indicates that there is or should be a linear mathematical or dollar-for-dollar relationship between such investments and an EDU's SEET threshold ROE. In other words, nothing in the SEET statute requires the amount by which the Commission increases an EDU's SEET threshold ROE in consideration of its future capital commitments to directly correlate with the costs of those commitments. Rather, future committed investments in Ohio – along with other factors – are considered in determining the earnings threshold for SEET purposes. Contrary to the premise advanced by OCC and OPAE in the case at bar, the 2009 SEET Case decision did not impose an obligation to invest without rate recovery and did not impose a contingent obligation to provide a customer refund relating to the TPS investment.

In the *2009 SEET Case*, AEP Ohio presented substantial evidence of the capital requirements of its planned future investments in Ohio and demonstrated that it was appropriate for the Commission to recognize that retained equity was needed to enable those planned investments to occur in the future. *2009 SEET Case*, AEP Ohio Initial Br. at 67-71 (Nov. 19, 2010). Specifically, Company witness Hamrock demonstrated that AEP Ohio had planned capital investments of approximately $1.67 billion during the term of its first ESP alone. *See id.*; *2009 SEET Case*, Cos. Ex. 6 at 17 and Ex. JH-1. That $1.67 billion of planned investment included planned capital investment of $20 million in the TPS project. *2009 SEET Case*, AEP Ohio Initial Br. at 5, 68, 71; *2009 SEET Case*, Cos. Ex. 8 at 7. Both Company witness Hamrock and AEP Ohio's post-hearing briefing made clear that AEP Ohio contemplated that its planned investments (including but not limited to its investment in the TPS project) would be capital investments for which the Company would recover in rates; the investment plans were never portrayed as donations or payments to ratepayers, either by the Company or by the Commission. There is no basis to distinguish the $20 million investment plan for Turning Point from any of the other investments comprising the $1.67 billion planned capital investment discussed in the Company's testimony. By contrast, AEP Ohio's explicit testimony and positions on brief in the *2009 SEET Case* were consistent with the SEET statute.

In its Opinion and Order in the *2009 SEET Case*, after considering the Company's $1.67 billion capital investment commitments, including the commitment to invest $20 million in the TPS project, as well as numerous other factors, the Commission concluded that it was appropriate to adjust the baseline adder used to determine the Company's SEET threshold ROE from 50% to 60%. *2009 SEET Case*, Opinion and Order at 22-27. In its prior generic SEET investigation proceeding (Case No. 09-786-EL-UNC), the Commission developed a list of various factors that it would consider when establishing a SEET threshold on a case-by-case basis. *2009 SEET Case*, Opinion and Order at 22, 25. In accordance with the 09-786 guidelines, the Opinion and Order in the *2009 SEET Case* separately considered several factors other than the $20 million Turning Point commitment when it decided to increase the earnings adder by 10%: (i) the Commission found (at 25-26) that "CSP is facing various business and financial risks," including various mandates under SB 221, carbon regulation and changing generation investment risks, (ii) the Commission found (at 26) that CSP's service reliability has improved through fewer outages and decreased duration of outages, (iii) the Commission acknowledged (at 26) that CSP's most recently authorized ROE was higher than the ROEs being advocated for use in the SEET, (iv) the Commission found (at 26) that "consideration should be given to CSP's commitment to innovation, including its work with the gridSMART program, and (v) the Commission found (at 26) that it "must also include in its consideration CSP's efforts to advance Ohio's energy policy and future capital commitments. Only as part of this fifth and final category of factors for consideration did the Commission consider the $20 million Turning Point commitment – and it was only part of one of the five categories of consideration factors (*i.e.*, it was the last consideration mentioned in the category of advancing State policy which also included the fact that CSP far exceeded the benchmarks of both energy efficiency and peak demand response). *2009 SEET Case*, Opinion and Order at 26.

An obvious and compelling observation must be acknowledged from the Commission's consideration of these factors: there is no basis to conclude that the 10% increase in the adder (from the default of 50% to 60%) was tied exclusively or even primarily to the $20 million Turning Point commitment. The Opinion and Order in the *2009 SEET Case* did not place any particular weighting on the various list of factors considered. (*2009 SEET Case*, Opinion and Order at 27, 34.) Indeed, the $20 million Turning Point investment was only one consideration as part of one of the factors (*i.e.*, it was the last consideration mentioned in the category of advancing State policy which also included the fact that CSP far exceeded the benchmarks of both energy efficiency and peak demand response). Thus, the planned $20 million TPS project investment did not, on its own, lead to the increase in the 2009 SEET threshold ROE, but rather was only one component of the basis for the additional 10% adder.

Pursuant to the record-based numbers used in the *2009 SEET Case* decision, the entire 10% adder would be equivalent to $22 million. This straightforward calculation is derived by subtracting the SEET ROE threshold of 16.5% that would have resulted from the 50% adder from the SEET ROE threshold actually adopted of 17.6% based on the 60% adder, which yields a difference of 1.1% or approximately $22 million.[2] Given that the Commission relied upon no less than five different categories of consideration factors in increasing the adder by 10% and given that the $20 million TPS commitment was only one part of the final category discussed in the Opinion and Order, there is no direct or quantifiable connection between the $20 million TPS commitment and the Commission's decision to elevate the SEET ROE threshold by $22 million. In reality, under the *2009 SEET Case* decision, only earnings *beyond* that 60% adder (which equated to a 17.6% ROE) were considered excessive and were to be returned to customers.

In sum, OCC and OPAE are wrong in claiming that the *2009 SEET Case* decision created an obligation to invest without rate recovery or a contingent customer refund obligation. The Signatory Parties to the Stipulation in this case jointly recommend that the Commission find that the VVO investment will fulfill the outstanding issue from the *2009 SEET Case*. Given the benefits associated with the VVO investment and the fact that the Company is under no obligation to pursue such a significant deployment of that technology, resolving the old SEET case is a reasonable and appropriate incentive for undertaking the VVO deployment. Thus, OCC's and OPAE's challenges should be rejected and the full Stipulation adopted.

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[2] As used by the 2009 SEET Order (at 35), Joint Intervenor Exhibit 2 calculated each 1% of ROE change as being equivalent to $20.039 million of earnings in 2009.

II. THE STIPULATION, AS A PACKAGE, BENEFITS RATEPAYERS AND THE PUBLIC INTEREST

A. The Stipulation's procedure for returning operational savings to customers is just and reasonable. [OCC III.B.1, OPAE III]

As described in AEP Ohio's initial brief (*see* AEP Ohio Br. at 21-25), the Stipulation contains several provisions that will ensure that customers receive the benefit of gridSMART Phase 2 operational savings, including an initial stipulated $1.6 million rider credit followed by a procedure to conduct a mid-deployment assessment of operational savings and to increase the credit to reflect actual savings attributable to the Phase 2 deployment. That is a just and reasonable approach that is fair to both customers and the Company, since it provides that customers will realize the substantial operational savings from gridSMART Phase 2 while ensuring that the Company is not forced to credit customers for operational savings before equipment is installed and operational savings are actually realized.

OCC and OPAE make several arguments against the Stipulation's process for returning operational savings to customers, but none have merit.

1. The Stipulation does not "treat customers as investors" but rather follows well-established ratemaking principles.

OCC claims that the Stipulation's operational savings credit process purportedly "treats customers as investors" because it "front loads the expenses for many of the Phase 2 projects." (OCC Br. at 10; *see also* OPAE Br. at 7 ("[T]he Stipulation unfairly burdens customers with the financial risks of the Phase 2 projects . . . .").) But this argument turns well-established concepts of ratemaking on their head. The Stipulation provides that the Company will pass gridSMART Phase 2 costs through the Phase 2 Rider as those costs are incurred, subject to a prudence review, which is typical in ratemaking proceedings. The Stipulation then provides that customers will receive Rider credits for operational savings *once those savings are actually realized*. That process follows traditional ratemaking procedures, in which prudently incurred costs and operational savings are reflected in rates as the costs are incurred and the savings are realized, not before or after.

OCC's own witness confirmed that OCC's "customers as investors" argument is contrary to well-established ratemaking principles. OCC witness Lanzalotta agreed that "the cost of network equipment should be reflected in retail rates if it's a prudent investment that's used and useful in providing electric service." (Tr. II at 320.) Mr. Lanzalotta further confirmed that "investigating whether individual customers receive a financial gain" from network investment is *not* "part of traditional ratemaking" so long as "the equipment is used and useful in serving them." (Tr. II at 340.) Finally, and most strikingly, Mr. Lanzalotta expressly agreed that it is not "fair" to "require the Company to provide a credit prior to the [gridSMART Phase 2] operational savings being realized." (Tr. II at 311.)

Thus, OCC's own witness confirmed that the Stipulation follows well-established ratemaking principles: Prudently incurred costs will be passed through to customers when they are incurred, and under the Stipulation's procedure for a detailed, mid-deployment review for actual operational savings, operational savings will be credited to customers as they are actually realized by the Company. That does not "treat customers as investors." Rather, it follows principles of "traditional ratemaking," as OCC witness Lanzalotta confirmed.

2. The Stipulation's process for updating the operational savings credit is mandatory.

OCC again distorts a single phrase in the Stipulation in an effort to suggest that it is unclear whether there will be a mid-deployment review and update of the stipulated $1.6 million annual operational savings credit. (*See* OCC Br. at 11.) As discussed in AEP Ohio's initial brief (*see* AEP Ohio Br. at 22-23), reading the entire Section IV.6 of the Stipulation in context, it is clear that the parties intended that the operational savings process *will occur*, and that the initial $1.6 million annual credit *will be replaced* by a Commission-established credit based on actual savings. (*See* Jt. Ex. 1 at 10 (Stipulation § IV.6) (providing that the $1.6 million annual credit "will extend *until the Commission adopts a new operational savings credit as described below*" (emphasis added)).) The only discretionary issue is whether Staff will retain an auditor – Staff "may" hire an auditor, or it may conduct the review itself. (*See id.*) In any event, AEP Ohio witness Moore confirmed on the stand that the parties intended the operational savings credit update process to be mandatory (*see* Tr. I at 182, 222-223), and the Company urges the Commission to adopt that interpretation of the Stipulation in its Opinion and Order.

3. The timing of the mid-deployment operational savings review is appropriate.

OCC argues that the timing of the operational savings review process contemplated by the Stipulation is "undefined," and OCC therefore assumes, without any justification, that there will be some unjustified delay in conducting the review and updating the credit to reflect actual operational savings. (OCC Br. at 12.) But there is no reason to conclude that there will be any unjust delay in the process of updating the operational savings credit.

Under the Stipulation, the operational savings review will be conducted by the Commission's Staff (with or without the aid of an auditor, in Staff's discretion). (*See* Jt. Ex. 1 at 10 (Stipulation § IV.6).) Staff witness Schweitzer stated that this review process would take place as early as a year and a half after gridSMART Phase 2 deployment begins, and that the review would take six months, with another six months to develop new operational credit levels. (Tr. III at 593-95.) OCC questions Mr. Schweitzer's timeline as merely a "recommendation," OCC Br. at 12, but it is the testimony of the most knowledgeable Staff witness in this proceeding and thus highly probative of the likely timeline. Under Mr. Schweitzer's timeline, the review would be complete – and the credit updated – two and a half years after Stipulation approval. Because the stipulated $1.6 million credit goes into effect in the fourth quarter following Stipulation approval (*See* Jt. Ex. 1 at 10 (Stipulation § IV.6)), that initial stipulated credit would be in place for *less than two years* (specifically, 21 months) before it is replaced with a new credit based on actual operational savings.

Critically, moreover, Staff witness Schweitzer appropriately emphasized the importance of conducting a *mid-deployment* operational savings review. (Tr. III at 593-594.) That is, the operational savings review should take place only after some amount of gridSMART Phase 2 equipment has been deployed, so that there will be a greater opportunity to accurately measure *actual* operational savings from installed and operational equipment. (*Id.*) The Company has estimated that gridSMART Phase 2 deployment will take several years following approval of the stipulation – four years for AMI meter deployment, six years for DACR deployment, and six years for VVO deployment. (*See* AEP Ohio Ex. 1, Osterholt Direct, at 5-6.) Under those deployment timelines, which OCC's witnesses had no reason to question (*see, e.g.*, Tr. II at 426-27), it would be appropriate to begin the operational savings review as early as a year and a half after gridSMART Phase 2 deployment begins, as Mr. Schweitzer recommends, since at that point there will be some deployment that has been completed. But it would be inappropriate to conduct the review before that time, as OCC apparently would prefer, since there would be insufficient deployment to accurately gauge *actual* operational savings.

4. OCC's "levelization" approach is meritless.

As noted above, *see supra* Section II.A.1, the Stipulation's process for passing gridSMART Phase 2 costs and savings through to ratepayers is based on "traditional" ratemaking principles, endorsed by OCC witness Lanzalotta, in which costs and operational savings are included in rates as they are incurred or realized by the Company. Yet OCC continues to rely on a different OCC witness, Mr. Gonzalez, who takes the inconsistent and unjustified view that operational savings should be "levelized" – that is, the Company should be required, in the early years of the Rider, to credit ratepayers for *future* operational savings that the Company has not yet realized. (*See* OCC Br. at 14-15; OPAE Br. at 7-8.)

OCC's "levelization" approach to operational savings would be profoundly unfair to the Company and should be rejected. As noted above, OCC witness Lanzalotta expressly agreed that it is not "fair" to "require the Company to provide a credit prior to the [gridSMART Phase 2] operational savings being realized." (Tr. II at 311.) Yet that is exactly what OCC witness Gonzalez's unjust "levelization" recommendation would involve. Moreover, OCC witness Lanzalotta agreed that the following steps would occur prior to the Company realizing any operational cost savings associated with AMI meters: the Company would have to (1) purchase the meters, (2) deploy the equipment over phases, and (3) test and verify equipment is working properly. (Tr. II at 308-309.) These steps would take months to years to complete. (Tr. II at 309.) And OCC witness Gonzalez agreed that "the Company cannot realize any operational savings until an AMI meter is installed." (Tr. II at 420.) Yet Mr. Gonzalez's misguided "levelization" approach would require the Company to begin to provide large operational credits in the first years following Stipulation approval, well before AMI meters are deployed and substantial operational savings are actually realized. (*See* OCC Ex. 18 at 22; OCC Ex. 20; Tr. II at 422.) That is profoundly unfair and is at odds with the basic reality, acknowledged by Mr. Gonzalez (Tr. II at 420), that the Company cannot realize operational savings from gridSMART Phase 2 technology until it is deployed.

OCC tries to make much of the fact that AEP Ohio projects nearly $200 million in operational savings from gridSMART Phase 2. (*See* OCC Br. 11.) It is true that this is the scale of the projected operational savings, and one of the principal reasons the Commission should approved the Phase 2 deployment. But the key point that OCC misses (or distorts) is that this $200 million projection is "over the initial *fifteen year period*" of gridSMART Phase 2 deployment. (AEP Ohio Ex. 1, Osterholt Direct, at 5 (emphasis added); *see also* AEP Ohio Ex. 1, Osterholt Direct, Ex. SSO-1 at 9 (providing estimated O&M savings as part of "15 Year Benefits"). These operational savings will start out small as AEP Ohio begins the gridSMART Phase 2 deployment. But as AEP Ohio ramps up its AMI installations over the projected four year deployment timeline (*see* AEP Ohio Ex. 1, Osterholt Direct, at 5-6), the expected operational savings will increase considerably. OCC witness Lanzalotta admitted this. He expressly agreed that operational savings "would tend to increase over time as more this equipment is installed," and he acknowledged that the operational savings "are not realized on a levelized basis by the Company." (Tr. II at 333-34, 336.)

The gridSMART Phase 2 operational savings, therefore, are not "levelized" as OCC witness Gonzalez claims; rather, they start small and increase over time. The Stipulation appropriately reflects this reality by stipulating a $1.6 million annual credit to begin in the fourth quarter following Stipulation approval, and then providing for a detailed mid-deployment operational savings review to adjust the credit to reflect the considerable operational savings that the Company will begin to realize as deployment ramps up. That is a just and reasonable approach that is fair to both customers and the Company.

5. Operational savings from gridSMART Phase 1 have already been incorporated in AEP Ohio's rates, and in any event, this issue is a red herring.

OCC repeatedly claims that operational savings from AEP Ohio's gridSMART Phase 1 deployment "have not been passed on to customers." (OCC Br. at 15.) That is false. Considerable operational savings from gridSMART Phase 1 were already included in AEP

Ohio's last distribution base rate case, Case No. 11-0351-EL-AIR. As AEP Ohio witness Moore explained, and OCC witness Williams confirmed, the Company's reconnection fee approved in the last base distribution rate case was discounted for all customers to reflect the cost savings associated with AMI deployment in Phase 1. (Tr. I at 215-217; Tr. III at 553-54.) Importantly, moreover, by the time of the test year for that base case, the gridSMART Phase 1 AMI deployment had been completed for eleven months. Thus, any gridSMART Phase 1 operational savings were necessarily incorporated in the Company's application as reductions to the Company's test year expenses and incorporated into a stipulated resolution *that OCC joined*.

OCC claims that gridSMART Phase 1 operational savings were somehow not part of the rates approved in Case No. 11-0351-EL-AIR, but OCC can offer no support for that statement. Because AMI deployment was complete, gridSMART Phase 1 operational savings were necessarily included in the Company's test year, and OCC can point to nothing to dispute that fact. To the contrary, OCC witness Williams admitted that he had not performed any calculation of what (if any) gridSMART Phase 1 operational savings were allegedly not included in rates. And OCC witness Lanzalotta admitted that, despite claiming in his direct testimony that customers "still have received none of the benefits" from gridSMART Phase 1 (OCC Ex. 13 at 11 n.15, 13), he did not review Company's reconnection fee that was discounted to reflect Phase 1 savings and he was not at all familiar with the Company's last distribution base case (Tr. II at 323, 331). Nonetheless, having participated in a host of rate cases and claiming to have considerable knowledge about traditional ratemaking, Mr. Lanzalotta acknowledged that labor savings from gridSMART Phase 1 would have been reflected in the Staff Report that formed the basis of the stipulated resolution of the case. (Tr. II at 328.)

The fact that Case No. 11-0351-EL-AIR was decided through a settlement does not change the conclusion that gridSMART Phase 1 operational savings were incorporated in the Company's distribution rates. As OCC witness Williams agreed, if a "base rate case is filed after the [gridSMART] implementation, then [a] party has a responsibility either to settle and say the rates are fine, or litigate their position if they don't think the rates are reflecting the cost savings." (Tr. III at 539.) That is, Mr. Williams acknowledged that the opportunity for OCC (and any other party) to argue that gridSMART operational savings should be included in rates is in the first base rate case after deployment. But for gridSMART Phase 1, that was Case No. 11-0351-EL-AIR, which occurred after gridSMART Phase 1 AMI deployment. Yet OCC made no argument in Case No. 11-0351-EL-AIR that gridSMART Phase 1 operational savings were improperly reflected in the distribution base rates approved in that case. Instead, it signed a stipulation in that proceeding agreeing that the rates as proposed were appropriate. In so doing, OCC abandoned any claim that the distribution rates were unjust on the ground that they allegedly did not include Phase 1 operational savings. OCC should not be permitted a second bite at the apple in this proceeding. The Company's last distribution case took place after gridSMART Phase 1 deployment and thus necessarily included Phase 1 operational savings in the approved rates. OCC's opportunity to argue otherwise has long since passed, and was expressly forfeited by OCC when it signed the stipulation in that case.

In any event, the Phase 1 operational savings issue is a red herring because the Commission need not resolve the extent to which Phase 1 operational savings have been incorporated in the Company's rates in order to approve the Stipulation in this proceeding. The Stipulation provides that the Phase 2 operational savings credit review process will incorporate any Phase 1 operational savings "to the extent such operational savings are not incorporated in rates." (*See* Jt. Ex. 1 at 10 (Stipulation § IV.6).) Thus, the extent to which Phase 1 operational savings are "incorporated in rates" is an issue for the future operational savings review, and as the Stipulation provides, the Commission can determine the appropriate level of credits (including any alleged Phase 1 savings not already incorporated in rates) if the parties are unable to reach agreement. (*Id.*) Accordingly, the Phase 1 operational savings issue need not be decided now, and there is no reason to delay Phase 2 deployment because of this issue.

B. The Stipulation's proposed cost allocation is just and reasonable. [OCC III.B.2]

Section IV.6 of the Stipulation provides that the costs recovered under the gridSMART Phase 2 Rider will be allocated and recovered from customers in the same manner as gridSMART Phase 1. (Jt. Ex. 1 at 9.) As expected, OCC raised an objection to the rate design on brief, claiming (at 16-18) that residential customers receive a small percentage of the benefits of the gridSMART Phase deployment and that such an allocation is unreasonable. The Company's Initial Brief already full addressed this objection and demonstrated (AEP Ohio Br. at 25-28) that the Stipulation's proposed cost allocation and rate design are reasonable. OCC's brief does not raise anything new; its challenge of the cost allocation method is illogical and unjustified. As explained in the Company's Initial Brief, the rate design implemented in the Stipulation is the same one that was unilaterally adopted by the Commission (based on a Duke case that OCC supported) for sound policy reasons.

C. It is proper to include VVO costs in the gridSMART Phase 2 Rider, not the Distribution Investment Rider. [OCC III.B.3]

OCC contends that VVO costs should be recovered through the Company's Distribution Investment Rider ("DIR"), rather than through the gridSMART Phase 2 Rider, because "the PUCO capped the costs that customers must pay through the DIR." (OCC Br. at 18.) In support of that claim, OCC selectively quotes a single statement from the Commission's Opinion and

Order in the Company's *ESP II* proceeding to contend that the Commission "has already determined VVO should be collected through AEP Ohio's DIR." (*Id.* (citing Opinion and Order at 62, Case No. 11-346-EL-SSO (Aug. 8, 2012) ("*ESP II* Opinion and Order").)

OCC's argument is flawed for multiple reasons. VVO costs have long been included as part of the gridSMART program and recovered through the gridSMART Rider. In approving the gridSMART Phase 1 deployment, the Commission broadly endorsed the benefits of distribution automation, including smart "capacitor banks" and "voltage regulators" – key components of VVO technology. *See* Opinion and Order at 35, Case Nos. 08-917-EL-SSO et seq. (Mar. 18, 2009) ("*ESP I* Opinion and Order").[3] The Commission then expressly approved the gridSMART Rider to recover costs related to this technology. *See id.* at 37-38. As the gridSMART Phase 1 deployment process unfolded, moreover, Staff audited the Company's gridSMART expenditures, which specifically included review of the "DA Integrated Volt Var Control (IVVC) program," and neither Staff nor the Commission in reviewing Staff's audit found any issue with the recovery of these VVO costs in the gridSMART Rider. Finding and Oder at 4, Case No. 10-164-EL-RDR (Aug. 11, 2010). In short, VVO costs have long been recovered through the gridSMART Rider, and OCC offers no reason to deviate from that well-established precedent.

OCC's selective and misleading quotation of the Commission's *ESP II* Opinion and Order does not in any way alter that conclusion. Read in context, it is clear that when the Commission referred to "IVVC" costs being recovered in the DIR, *see ESP II* Opinion and Order at 62, the Commission was not in any way suggesting that gridSMART Phase 2 VVO costs

[3] When the Commission uses the term "DA" in the *ESP I* Opinion and Order, it is referring to both DACR and VVO. As is clear from the Order, DA is a blanket term that includes smart "capacitor banks, voltage regulators, reclosers, and automated line switches." *ESP I* Opinion and Order at 35. In this proceeding, the Company has typically declined to use the blanket term "DA" but rather referred specifically to the two types of DA technology used in the gridSMART program – namely, (1) DACR, a type of DA which includes smart "reclosers" and "automated line switches," and (2) VVO, a type of DA which includes smart "capacitor banks" and "voltage regulators."

could not be collected through the gridSMART Rider. Rather, the Commission made clear that "IVVC is not exclusive to the gridSMART project." *Id.* That is, the Commission recognized that the Company could, in its discretion, propose to install incremental VVO, in addition to VVO included in the gridSMART program, and recover such costs through the DIR. That is the only possible meaning of the phrase "not exclusive to" – the Commission clearly indicated that VVO could be recovered through the gridSMART Rider, but simply noted that VVO recovery was "not exclusive to" gridSMART but *also* could be recovered through the DIR.

VVO has been a critical part of the Company's gridSMART program, and the Commission has always approved the inclusion of VVO costs in the gridSMART Rider. Based on the clear success of the VVO technology in Phase 1, the Company expects customers to realize a 3% energy efficiency gain from the proposed Phase 2 VVO deployment – and this equates to $210 million in customer bill savings. (AEP Ohio Ex. 1, Osterholt Direct, Ex. SSO-1 at 9.) There is no reason to deny the proposed Phase 2 VVO deployment and its inclusion in the gridSMART Rider.

D. There is no need for the Stipulation to address the timing of the Company's next distribution rate case. [OCC III.B.4]

OCC advocates that AEP Ohio should be required to file a base rate case in order to recover the gridSMART Phase 2 deployment costs such that shareholders bear the financial risk of investment until the technology is proven to be used and useful to customers. (OCC Br. at 21-23.) As a related matter, OCC claims that without a rate case, "there is no opportunity for customers to receive many of the benefits anticipated to result from Phase 2 deployment." (*Id.* at 21.) While AEP Ohio appreciates OCC's acknowledgement that significant benefits are anticipated from gridSMART Phase 2, the Company submits that OCC's position on this point is completely meritless. The reality is that OCC merely continues to disagree – as it did in the ESP

III case where the gridSMART Phase 2 Rider was adopted – with the entire notion of a rider to recover such network investments; this argument merely demonstrates OCC's preference for the traditional rate case and the Commission should again reject it.

As a threshold matter, OCC is wrong in claiming that there is no opportunity for customers to receive the benefits of gridSMART Phase 2 technology absent a base rate case. The Company demonstrated in its Initial Brief (at 22-23) that the operational cost savings review and the process for establishing a credit based on actual cost savings will most certainly happen under the Stipulation. And OCC's own witness Lanzalotta acknowledged that there should be several categories of operational cost savings associated with the deployment of AMI technology. (Tr. II at 311-314.) Thus, significant operational savings will be captured through the review and resulting updated credit.[4] Moreover, OCC witness Lanzalotta agreed that there would be reduced generation costs for customers with VVO and avoided O&M through continuous voltage monitoring through the combination of VVO and AMI. (Tr. II at 314-317.) OCC witness Lanzalotta also acknowledged that the proposed gridSMART Phase 2 deployment would help lower carbon emissions, through fewer truck rolls and less generation production. (Tr. II at 316.) All of those benefits occur without respect to a base rate case and independent of the operational cost savings audit or credit. In sum, none of the benefits associated with gridSMART Phase 2 deployment are dependent upon a base rate case – customers will already receive them under the terms and operation of the Stipulation.

Next, OCC complains (at 21-22) that the $1.6 million initial credit is too small. As Staff pointed out on brief, the Company's initial Application did not reflect a credit and the

[4] OCC claims (at 22, in footnote 96) that the collections and revenue savings ($8-10 million expected annually) are being credited back to customers. While the initial $1.6 million provisional credit does not earmark a specific amount for this category, it is clear that the operational cost savings audit and the updated credit will reflect all such savings.

Stipulation's provisions in this regard add significant value, despite OCC's criticisms. (Staff Br. at 11-12.) Further, AEP Ohio witness Moore confirmed that the operational cost savings audit is mandatory under the provision on Page 10 of the Stipulation and will occur. (Tr. I at 182, 222-223.) As a related matter, the Stipulation provides a process for updating the credit based upon the audit and provides that the interim credit will only be in place until the Commission adopts a new operational cost savings credit. (Jt. Ex. 1 at 10.) OCC's attacks on the temporary credit are misplaced – it is provisional and will provide significant benefits to customers until such time as the operational savings review is conducted and the replacement credit is determined.

Finally, as even OCC witness Lanzalotta agreed, the costs and benefits of the proposed gridSMART Phase 2 technology deployment are both expected to increase over time. (Tr. II at 333-334.) Thus, starting with a smaller credit and updating it with a larger credit after confirmation of savings is a reasonable approach. Ultimately, OCC witness Lanzalotta agreed that it is not fair to require the Company to provide a credit prior to the operational savings being realized by the Company. (Tr. II at 311.)

Finally, the Commission already adopted the gridSMART Phase 2 Rider mechanism in the *ESP III* case over OCC's objection, and the current challenges by OCC rehash its ongoing disagreement with the Commission's approval of the rider mechanism. *ESP III* Opinion and Order at 50-52. OCC already lost the argument that the gridSMART Phase 2 Rider be denied or conditioned on the filing of a base rate case. The whole point of the rider is to encourage investment through contemporaneous cost recovery, while preserving the Commission's ability to conduct a prudence review and financial audit of all of the costs flowing through the rider. OCC's preference of base rate cases over riders misses that point and merely reflects its ongoing opposition to the gridSMART Phase 2 Rider.

The flawed nature of OCC's position was further exposed during cross examination of OCC witness Williams. Under the Commission's *ESP III* decision adopting the gridSMART Phase 2 rider, OCC witness Williams understands that this rider case is about filling the rider with cost-effective technology deployments – but he would still rather wait until the Company files a base distribution rate case to allow cost recovery. (Tr. III at 495, 502-503.) But if AEP Ohio was required to file a base distribution rate case after its gridSMART deployment, Mr. Williams had no expectation that the Company would have to show that a specific level of operational cost savings was realized or that it would exceed the associated costs. (Tr. III at 535.) In other words, OCC simply continues to disagree with the *ESP III* decision and would like to circumvent it.

Ironically, OCC invokes the recent Duke Energy Ohio smart grid rider case (OCC Br. at 22) to point out that Duke includes a more favorable operational cost savings credit. Regarding OCC's support of the Duke smart grid deployment, OCC witness Williams acknowledged that the operational cost savings audit was conducted after the deployment began and was not encompass whether to pull the plug on the ongoing deployment. (Tr. III at 508-509.) More importantly, OCC witness Williams confirmed that OCC supported Duke's most recent smart grid rider rate of $6.28/month for residential electric customers. (Tr. III at 516; AEP Ohio Ex. 10.) The Duke charge is net of the operational cost savings credit agreed to in the Duke settlement. (Tr. III at 564.) OCC utterly fails to explain how it supports a charge for Duke that is nearly *three times larger* than AEP Ohio's proposal – this demonstrates the lack of merit in OCC's position here.

In short, the Stipulation's process for a comprehensive operational savings review and updated credit will soon overtake the interim credit and OCC's complaints about the temporary credit are of limited relevance to begin with. The Stipulation process may not achieve perfection but it is reasonable, appropriate, and passes the three-part test. There is no basis to incorporate a base rate case requirement.

E. The evidentiary record supporting the Stipulation shows that customers will realize substantial benefits from gridSMART Phase 2, and what few criticisms of that record OCC offers are meritless. [OCC III.B.5]

OCC claims that there is "no guarantee that customers will realize the technological benefits from Phase 2 deployments." (OCC Br. at 23.) But that assertion is belied by the substantial record developed in this case showing that the proposed gridSMART Phase 2 deployment will lead to nearly <u>$200 million in operational savings</u> attributable to AMI deployment, <u>$210 million in customer bill savings</u> attributable to energy and capacity savings from VVO deployment, and <u>more than $1 billion in customer value</u> attributable to reduced customer minutes of interruption from DACR deployment. (AEP Ohio Ex. 1, Osterholt Direct, Ex. SSO-1 at 9; *see also* AEP Ohio Br. at 9-20 (providing additional details concerning the substantial evidentiary record supporting these benefits).) Further, as shown in AEP Ohio's benefit-cost analysis submitted as part of the record in this proceeding – an analysis which OCC's initial brief barely mentions, let alone refutes – the proposed gridSMART Phase 2 deployment will lead to hundreds of millions of dollars in net benefits to customers, including a benefit-to-cost ratio of 2.8 on a cash basis and 2.0 on a net present value basis. (AEP Ohio Ex. 1, Osterholt Direct, Ex. SSO-1 at 4.)

OCC's criticisms of this evidentiary record are few, and what criticisms it does offer do not withstand the slightest scrutiny. As for operational savings, although OCC offers meritless criticisms of the Stipulation's proposed operational savings credit process, *see supra* Section II.A, it is notable that OCC does not make any serious effort to question the Company's projections of $200 million in likely operational savings from AMI meters.

As for benefits related to the proposed VVO deployment, OCC bizarrely fixates on a study of maintenance costs related to VVO. (*See* OCC Br. at 24.) But the evidence supporting the proposed VVO deployment is based primarily on the technology's ability to provide *energy efficiency savings*. On that point, the record demonstrates that the proposed VVO deployment will allow AEP Ohio customers to save 235,390 MWh annually, which equates to $210 million in overall customer bill savings over the first fifteen years of deployment. (AEP Ohio Ex. 1, Osterholt Direct, Ex. SSO-1 at 9; *see also* AEP Ohio Br. at 17.) OCC can point to nothing in the record to call those numbers into question.

As for the proposed DACR deployment, OCC repeats Mr. Lanzalotta's selective and improper use of SAIFI data to criticize the Phase 1 DACR performance. But OCC's initial brief completely ignores the rebuttal testimony of AEP Ohio witness Osterholt, which catalogued the numerous ways in which Mr. Lanzalotta's analysis was flawed. Mr. Osterholt's rebuttal testimony is discussed at length in AEP Ohio's initial brief. (*See* AEP Ohio Br. at 15-17.) In short, it is improper and unfair for OCC witness Lanzalotta to focus solely on year-to-year SAIFI figures because SAIFI is affected by numerous factors outside the Company's control, including outages related to weather, animals, and vehicle accidents, as well as outage location. (*See* AEP Ohio Ex. 13, Osterholt Rebuttal, at 6; *see also* AEP Ohio Br. at 15-16.) Mr. Lanzalotta admitted as much, agreeing that "there may well be other factors for any given year that affect the Company's reliability performance." (Tr. II at 369.)

In contrast to Mr. Lanzalotta's flawed analysis, AEP Ohio witness Osterholt's rebuttal testimony presented several metrics showing that the Phase 1 DACR system performed well and avoided numerous customer interruptions ("CI") and customer minutes of interruption ("CMI"). (*See* AEP Ohio Ex. 13, Osterholt Rebuttal, at 2-10.) Most importantly, as Mr. Osterholt explained, AEP Ohio's Phase 1 DACR system kept logs from which AEP Ohio can calculate the precise number of customer interruptions that the Phase 1 system avoided. (AEP Ohio Ex. 13, Osterholt Rebuttal, at 4.) Data from these systems show that the Phase 1 DACR technology avoided numerous customer interruptions in the years cited by Mr. Lanzalotta. (*See id.* at 9, tbl. 4 (DACR avoided over 26,000 customer interruptions in 2014 and over 14,000 customer interruptions in 2015).) The key point, as Mr. Osterholt explained, is that "DACR tends to make SAIFI performance *better than it would have been without DACR*." (*See* AEP Ohio Ex. 13, Osterholt Rebuttal, at 6.)

The data from Phase 1 show that the proposed gridSMART Phase 2 deployment contemplated by the Stipulation will avoid as 21 million customer minutes of interruption and lead to $1 billion in customer benefits. (AEP Ohio Ex. 1, Osterholt Direct, at 11; Ex. SSO-1 at 3-4, 9.) Neither Mr. Lanzalotta's direct testimony nor OCC's initial brief makes any real effort to question these projections, and OCC has never offered its own competing projection of what the likely impacts of the DACR deployment will be. On the current evidentiary record, therefore, the clear conclusion is that the proposed DACR deployment will lead to substantial customer benefits.

Lastly, OCC does not explain what it means when it references a purported "guarantee" of customer benefits (*see* OCC Br. at 23), but it is important to note that the Stipulation does contain critical commitments by the Company to ensure that customers will benefit from the gridSMART Phase 2 deployment. In particular, as discussed in detail above, the Stipulation contains a process for returning Phase 2 operational savings from customers. *See supra* Section II.A. Moreover, with respect to DACR, the Stipulation contains two commitments – a primary commitment to achieve a 15.8% annual SAIFI improvement, and a secondary commitment to achieve an 80% successful operation of the DACR systems. (*See* (Jt. Ex. 1 at 6 (Stipulation § IV.2); AEP Ohio Ex. 1, Osterholt Direct, at 9; *see also* AEP Ohio Br. at 13-15.) These commitments related to operational savings and reliability improvement will allow the Commission and its Staff to continue to review the Company's gridSMART Phase 2 deployment and ensure that customers are realizing the benefits of the technology.

F. The Stipulation provisions addressing time of use rates are reasonable and will lead to substantial customer benefits. [OCC III.C, OPAE V]

As described in AEP Ohio's initial brief (*see* AEP Ohio Br. at 20-21), the Stipulation also contains important provisions relating to time-of-use ("TOU") rates and interval data. Specifically, AEP Ohio's proposed gridSMART Phase 2 AMI deployment will provide the metering technology necessary for hundreds of thousands of customers to take advantage of TOU rates, and the Stipulation contains a TOU rate "transition plan" that will promote a market for TOU rate offerings by CRES providers. (*See* Jt. Ex. 1 at 7-9 (Stipulation § IV.5).)

OPAE criticizes the TOU transition plan (OPAE Br. at 10-12), but its arguments are baseless. First, OPAE argues that TOU rates represent an "unrealistic requirement for many customers, including low-income customers, who may end up paying far more when they are unable to monitor and control their usage." (OPAE Br. at 11.) OPAE's precise concern is unclear, but OPAE cites no support for the notion that low income customers cannot take advantage of the benefits of TOU rates. As AEP Ohio witness Osterholt explained, for AEP Ohio's current TOU offerings, customers do not need an internet connection to participate, and the Company provides the customers everything they need to monitor their usage, including "an in-home display" that "allows them to see their current usage and multiplied by the rates so they can see effectively what it's costing them per hour." (Tr. I at 113-14.) In any event, the

Stipulation is not proposing that any customers be *required* to participate in TOU rates; it is merely working to make TOU rates available to customers who desire to opt in to them.

Second, OPAE (and, in passing, OCC) argue that customers should not bear the cost of the data portal necessary to allow CRES providers to offer unique and customized TOU rates. (OPAE Br. at 11; *see also* OCC Br. at 27.) But the data portal is for the benefit of customers because it will promote the competitive market and will make it possible for CRES providers to develop and innovate TOU offerings for customers' benefits. This does not violate principles of cost causation, as OCC claims. (*See* OCC Br. at 27.) The data portal is a necessary part of making unique and competitive TOU offers available to customers. It is appropriate that the costs of this necessary technology would be passed through to ratepayers.

III. THE STIPULATION PACKAGE DOES NOT VIOLATE ANY IMPORTANT REGULATORY PRINCIPLE OR PRACTICE

A. The remote disconnection functionality of AMI meters is reasonable, and in any event, the Commission can address issues related to remote disconnection in a separate waiver proceeding. [OPAE II]

OPAE continues to attempt to re-litigate the Commission's granting of a limited waiver of its day-of-disconnection rules to allow AEP Ohio, on a pilot basis in gridSMART Phase 1, to disconnect customers remotely. (OPAE Br. at 4 (contending that the Commission should "rescind the waiver" granted in Case No. 13-1938-EL-WVR).) But OPAE's application for rehearing in that proceeding was denied, *see* Second Entry on Rehearing, Case No. 13-1938-EL-WVR (Sept. 9, 2015), and OPAE pursued no appeal of that decision. It is manifestly improper for OPAE to continue to attempt to re-litigate an issue that has long since been finally determined by the Commission.

As to the impact of the remote disconnection issue on this proceeding, OPAE argues that remote disconnection "eliminate[s] customer protections" because "customers cannot avail themselves of payments plans, payment assistance programs, or the right to dispute the reason for the disconnection." (OPAE Br. at 5.) But it does no such thing. As described in AEP Ohio's initial brief (*see* AEP Ohio Br. at 28-31), and as the Commission addressed at length in Case No. 13-1938-EL-WVR, remote disconnection does not deny customers any of the important protections found in the Commission's rules related to payment plans or disputing fees. It only addresses the method by which the Company will notify customers of disconnection. And as the Commission determined in the waiver case, the Company's approved notice procedure – "two written notices mailed to the customer, a 10-day notice (by telephone call or mailed) and, if necessary, a telephone call approximately 48 hours prior to the scheduled disconnection of service" – satisfies the requirements for "reasonable" notice under R.C. 4933.122, and is sufficient to "reasonably inform the customer and communicate a sense of urgency regarding the status of the utility account." Entry at 8, 12, Case No. 13-1938-EL-WVR (Mar. 18, 2015). The remote disconnection functionality of AMI meters provides substantial operational savings and safety benefits. OPAE's objections are meritless and have been repeatedly denied by the Commission.

In any event, as explained in AEP Ohio's initial brief (*see* AEP Ohio Br. at 30-31), the Commission can address issues related to remote disconnection in a separate waiver proceeding for gridSMART Phase 2, should the Company file one. Even without an expanded remote disconnection waiver, the proposed AMI meter deployment will still lead to substantial annual operational savings (*see* AEP Ohio Ex. 1, Osterholt Direct, Ex. SSO-1 at 5), plus hundreds of millions of dollars in overall gridSMART Phase 2 benefits (*see id.* at 9). Thus, the remote disconnection issue is another red herring and need not delay the Commission's approval of the Stipulation.

B. OPAE's unsubstantiated legal objections to pre-paid metering are unripe and meritless. [OPAE IV]

In Section 17 of the Stipulation, AEP Ohio "agrees to work with the Staff and interested parties within the gridSMART Collaborative to identify any legal and regulatory barriers for an EDU or CRES pilot prepaid metering program that customers could opt-into." (Jt. Ex. 1 at 12 (Stipulation § 17).) The Stipulation further provides that "[a]ny future opportunity to move forward with Prepaid Metering would address consumer protections." (*Id.*)

OPAE takes issue with this provision based on OPAE's belief that "[p]re-paid metering service in Ohio is unlawful." (OPAE Br. at 9.) Remarkably, however, OPAE cites no statute or Commission regulation in support of that claim, and thus it is difficult to respond to. In any event, OPAE's concerns are unripe and need not be addressed by the Commission at this time. The Stipulation merely reflects a commitment by the Company to "work with Staff and interested parties" to identify and discuss issues related to pre-paid metering, including "any legal and regulatory barriers." (Jt. Ex. 1 at 12 (Stipulation § 17).) Witnesses for both AEP Ohio and Direct Energy confirmed that this commitment is merely to discuss and explore the possibility of pre-paid metering. (*See* AEP Ohio Ex. 1, Osterholt Testimony, at 26; Tr. II at 273.) If those discussions lead to specific proposals before the Commission for a "pilot prepaid metering program" (Jt. Ex. 1 at 12 (Stipulation § 17)), OPAE will have every opportunity to present – and the Commission can address – any legal objections at that time.

C. The Stipulation does not violate any state energy policy but rather promotes the Commission's strong and well-established policy in favor of gridSMART technologies. [OCC III.C]

As an afterthought, OCC offers a few unsupported sentences at the end of its brief claiming that the Stipulation violates state energy policies. (*See* OCC Br. at 26.) But each of these arguments is merely a rehashing of points OCC made previously – points related to program cost, DACR effectiveness, and cost allocation. (*See id.*) The Company has addressed those arguments in detail above. *See supra* Sections II.A, II.E (addressing program benefits and costs); Section II.B (addressing cost allocation); Section II.E (addressing DACR effectiveness).

Far from violating state energy policies, the Stipulation's proposed gridSMART Phase 2 deployment will further numerous state policies, including the express statutory policy supporting development of "smart grid programs" and "implementation of advanced metering infrastructure." *See* R.C. 4928.02(D). Moreover, as noted in AEP Ohio's initial brief and the brief of the Commission's Staff (*see* AEP Ohio Br. at 1-4; Staff Br. at 2-4), the Commission has repeatedly recognized that"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 2* Opinion & Order at 62 (quoting *ESP 1* Opinion & Order at 34-35). And the Commission, in several orders, has been "not wavering in its conviction as to the benefits of gridSMART." *Id.* Thus, the Stipulation's proposed gridSMART Phase 2 deployment is a substantial step toward the Commission's – and the Company's – shared goal of modernizing the distribution grid and providing an enhanced experience for customers.

CONCLUSION

For the foregoing reasons, the Stipulation should be approved and adopted without modification.

Respectfully submitted,

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CERTIFICATE OF SERVICE

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy of the foregoing *Initial Post-Hearing Brief of Ohio Power Company* was sent by, or on behalf of, the undersigned counsel to the following parties of record this 16th day of September, 2016, via electronic transmission.

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