BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

| | | |
|---|---|---|
| In the Matter of the Review of the | ) | |
| Distribution Investment Recovery | ) | Case No. 16-0021-EL-RDR |
| Rider Contained in the Tariffs | ) | |
| Of Ohio Power Company | ) | |

# INITIAL COMMENTS OF OHIO POWER COMPANY

On February 3, 2016 the Commission ordered that Staff issue the RFP for proposals for the audit services of the Distribution Investment Rider (DIR) of Ohio Power Company ("AEP Ohio" or the "Company") in Case No. 16-0021-EL-RDR.

On March 16, 2016 the Commission selected Blue Ridge Consulting Services, Inc. ("Blue Ridge") to perform the audit. Blue Ridge filed its audit report on August 4, 2016. The Attorney Examiner issued an Entry for a procedural schedule requiring initial comments in response to the audit report be filed by May 15, 2017. AEP Ohio hereby files its initial comments in response to the audit report of Blue Ridge filed on August 4, 2016.

## COMMENTS REGARDING BLUE RIDGE AUDIT REPORT

**Recommendation Number 1 :** 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)

While the Company agrees that the adjustment should flow through the DIR, the Company disagrees that the amounts are material enough to restate prior years. There were two values associated with the recommendation, one related to January 2012 through February 2015 for a total of $131,793. The other was related to 2015 plant and the charges and refunds were not related to AEP Ohio. While the Company understands the recommendation to adjust the year in which the credit relates, the value is immaterial on the carrying charge calculation for restatement. That being said, the Company received the credits in September 2015 and they have been included as a reduction to capital.

**Recommendation Number 2 :** 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)

The Company disagrees with Blue Ridges audit recommendation. The Company provides the net book value of the entire distribution capital as well as the net book value associated with the ESRR and Phase I assets. The Phase I assets will be moved into the DIR and moot going forward, however, the Phase II assets will be excluded from the DIR and included for recovery in the Phase II rider. The timing of the filings do not matter. The Net Book Value removed from the DIR for the ESRR can already be tied to the plant collected in the ESRR as filed in the ESRR annual updates. Schedule 1 of the ESRR filings show the incremental plant balances that tie to the data provided in each quarterly DIR update. The Company will provide the Phase II assets in the DIR workpapers like it did the Phase I assets where the values can be verified, timing is not an issue. The current schedules are transparent and provide the detail needed.

If Blue Ridge was referring to the timing of the Phase I assets for recovery through the Phase I rider versus through the DIR, the Company has already filed its final Phase I rider and in that filing stated that it would stop removing the Phase I assets from the DIR beginning with Apirl, 2017. The auditor, Staff or the Commission will see this change in the second quarterly filing of the DIR as that will be transparent on the schedule. In addition, the Phase II filing made by the Company shows the capital carrying costs for the Phase I assets ends in March 2017, and the capital carrying costs for these assets beginning April, 2017 will be collected through the DIR. There is no timing issue.

**Recommendation Number 3 :** 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)

The Company has fulfilled this request. There are no subaccounts, only 370.16, in which the Company shows on the schedule. The Company has worked with Staff to verify that it appropriately implemented the recommendations the staff made and Commission approved in the ESP III proceeding, Case No. 13-2385-EL-SSO.

**Recommendation Number 4 :** 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)

The Company no longer uses the Lotus Notes database for approvals.

**Recommendation Number 5 :** 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)

The Company followed up with Blue Ridge on the following recommendations by supplementing responses. There was misunderstanding in the audit questions and responses as it related to work order testing and budget versus actuals for each workorder. In the Blue Ridge audit report on page 37 it describes the budgeting process of the Company, correctly stating “The Company does not approve individual work orders. Most distribution work funding is approved at a program or higher level.” Blue Ridge’s recommendation is summarized on the audit report page 38 stating that “Blue Ridge asked the Company twice to provide budget and actual costs with explanations for variances of plus or minus 15%. The Company provided variance data on only 9 of 51 work orders in the sample when responded to the first request and no additional variance data on work orders in the second request.” The Company did not provide the data per workorder as we do not budget to work orders as Blue Ridge noted in its report. The Company subsequently noticed that it inadvertently had not provided the necessary backup for the project in which one workorder rolled up to and supplemented that response to provide the information.

**Recommendation Number 6 :** 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)

The Company disagrees with Blue Ridge's recommendation. Blue Ridge notes in their audit report the Company's response to Data Request BR-INT-7-024 and then follows that by their recommendation. The Company stated that these cost components represent a portion of the Company's actual cost of labor. The charges listed are part of the Company's competitive compensation plan and in totality make up the total compensation package. These cost components are components of the reasonable market competitive compensation provided to AEP employees that benefits customers by enabling the Company to attract, retain, and motivate the employees needed to efficiently and effectively provide electric service to its customers. AEP compares its compensation plans to market plans in order to maintain competitiveness as an employer. The particular cost components are included for short term incentive compensation plans as well as long-term incentive compensation plans that allow employees at certain levels restricted stock and stock based compensation. The market based compensation includes base salary plus short term incentive for the total cash compensation. Additional compensation packages include base salary plus short term incentive for the total cash compensation and long-term incentive for the total compensation. In the development of the Staff reports prepared in Case Numbers 11-351-EL-AIR and 11-352-EL-AIR, the Staff specifically recognized this and incorporated incentives into their labor build up. In the stipulation of this case, the Staff reports were accepted as the basis of the Company's base distribution rates, so removing these cost components would ne inappropriate and create a disconnect in cost recovery between base rates labor and the labor incorporated in capitalized projects.

**Recommendation Number 7 :** 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)

The Company will work with the Staff on this recommendation. While the Company understands that this recommendation is around certain 2015 transactions, it is the Company's position that the Commission is aware of the process and benefits of the Company implementing the affiliated transaction agreement. In past cases, notably the gridSMART Phase I rollout of AMI meters, the Company provided benefits to the project by utilizing the affiliated transaction agreement to sell to other operating companies at Net Book Value the meters removed throughout the territory. These transactions allowed for a reduction in the cost of the overall program by selling the meters at their Net Book Value, decreasing the loss on removal of meters flowed through the Phase I rider.

**Recommendation Number 8 :** 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)

The Company will work with Staff on this recommendation.

**Recommendation Number 9 :** 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)

The Company agrees with this recommendation to the extent possible. However, work orders can be inactive for various reasons, including awaiting work by third parties, awaiting billings that are not submitted from contractors, rescheduling of projects, etc.

While these reasons can be outside of the Company's control, there is a SOX procedure for quarterly review of inactive workorders, including sign off by management.

**Recommendation Number 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)

The Company agrees with this recommendation.

Respectfully submitted,

/s/ Steven T. Nourse
Steven T. Nourse
American Electric Power Corporation
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215-2373
Telephone: (614) 716-1608
Facsimile: (614) 716-2950
stnourse@aep.com

**Counsel for Ohio Power Company**

## CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing has been served upon the below-named counsel via electronic mail, this 15th day of May, 2017.

/s/ Steven T. Nourse
Steven T. Nourse

Steven L. Beeler
Attorney General's Office, Staff Counsel
Public Utilities Commission Section
180 E. Broad Street, 9th Floor
Columbus, Ohio 43215-3793
steven.beeler@ohioattorneygeneral.gov

Jodi J. Bair
Office of the Ohio Consumers' Counsel
10 West Broad Street, 18th Floor
Columbus, Ohio 43215
jodi.bair@occ.ohio.gov