

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

<sup>4</sup> OCC Comments at 7 (May 15, 2017).

The Office of the Ohio Consumers' Counsel ("OCC") files these Reply Comments to address the Comments filed in this docket by AEP Ohio. OCC asks the PUCO to consider its Initial and Reply Comments and adopt the recommendations made. Those Initial Comments recommended that the PUCO order a prudency review of the DIR investments to protect customers from paying unreasonable and unlawful charges. OCC's recommendations are made to protect the Utility's customers from paying charges that were not prudently incurred and have not improved service reliability.

## **II. RECOMMENDATIONS**

### **A. The PUCO should not permit AEP to charge customers for any incentive pay compensation that may be included within its DIR costs.**

The Blue Ridge Compliance Audit report, on pages 38-39, recommends that work order costs associated with cost elements 141, 145, 154, and 155 be removed from the DIR plant balances. As described in the Audit Report, these cost elements represent incentive compensation paid to Ohio Power Company employees. On page 4 of its comments, Ohio Power disagrees with this recommendation, stating that "[t]he charges listed are part of the [Utility's] competitive compensation plan and in totality make up the total compensation package."<sup>5</sup>

The PUCO has determined that incentive compensation, at least as it pertains to financial goals, should not be collected from customers: "To the extent that financial incentives are awarded for achieving financial goals, the primary benefit of such financial

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<sup>5</sup> AEP Ohio Comments at 4 (May 5, 2017).

incentives accrues to shareholders and that portion of incentive compensation should not be recovered from [customers].”<sup>6</sup>

The work orders in the sample reviewed in the audit included cost elements of only \$63,000 related to incentive compensation. However, as Blue Ridge stated “[w]hile 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 [Utility] review the cost detail for the total population of work orders included in the DIR and remove the costs of the four identified cost elements from the DIR.”<sup>7</sup>

Consistent with the Commission’s precedent finding that the portion of incentive compensation related to attaining financial goals should not be collected from customers, OCC agrees with the Auditor that such costs should not be included in the calculation of the DIR revenue requirement. Cost Element 145 represents Stock-based compensation, and Cost Element 154 represents Restricted Stock Incentives. By definition, these cost elements represent incentive compensation based on the achievement of financial goals for the Utility and should be removed from the cost of plant included in the DIR. Cost elements 141 and 155 also represent incentive compensation, and to the extent that incentive compensation in those cost elements is based on the achievement of financial goals, such costs should also be removed from the cost of plant included in the DIR.

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<sup>6</sup> *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Increase Rates for Distribution Service, Modify Certain Accounting Practices, and for Tariff Approvals*, Case No. 07-551-EL-AIR, et. al. at 17 (Jan. 21, 2009).

<sup>7</sup> Blue Ridge Compliance at 52 (Aug. 5, 2016).

**B. The PUCO should order AEP Ohio to provide documentation that provides an audit trail in order to allow a review of DIR expenditures.**

Blue Ridge stated in the Compliance Report that there were instances where the documentation was incomplete for both blanket and specific work orders and that in some documentation there was no work order approval process.<sup>8</sup> Blue Ridge recommends that AEP Ohio should have attached the project documentation to support approval, providing an audit trail.<sup>9</sup> AEP Ohio's response, in its entirety was "[t]he Company no longer uses the Lotus Notes database for approvals."<sup>10</sup>

Before collecting money from customers for distribution investment, AEP should be required to prove that the investment is used and useful and was prudently incurred. AEP, not OCC, bears the burden of proof in this respect. Part of such a review would necessarily include a review of expenditures. But as pointed out by the auditor documentation was incomplete in certain respects. This is reason for the PUCO to reject AEP's DIR charge to customers. Furthermore, AEP Ohio has the burden of proof to demonstrate that its management has reviewed and approved various project work orders. Absent management's involvement in this process, the Utility has failed to meet its burden of proof and the PUCO should consider disallowances associated with these project costs.

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<sup>8</sup> Blue Ridge Compliance Report at 37.

<sup>9</sup> *Id.*

<sup>10</sup> AEP Ohio Comments at 3 (May 15, 2017).

### III. CONCLUSION

OCC asks the PUCO to adopt the recommendations proposed by OCC in its Comments and Reply Comments and order a prudency review of the DIR investments to protect customers from paying unreasonable charges that have not led to improved service reliability. OCC appreciates the opportunity to make these recommendations to assist the PUCO in its annual review of AEP Ohio customer-funded DIR.

Respectfully submitted,

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### **CERTIFICATE OF SERVICE**

I hereby certify that a copy of these Reply Comments was served on the persons stated below via electronic transmission, this 5<sup>th</sup> day of June 2017.

/s/ Jodi Bair

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**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**6/5/2017 4:01:29 PM**

**in**

**Case No(s). 16-0021-EL-RDR**

Summary: Comments Reply Comments by the Office of the Ohio Consumers' Counsel electronically filed by Ms. Deb J. Bingham on behalf of Bair, Jodi Ms.