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	)	

REPLY 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. Parties filed initial comments on May 15, 2017. AEP Ohio hereby submits its reply comments.

I. The reliability of the AEP Ohio system has not significantly decreased

The Office of the Ohio Consumers' Counsel (OCC) incorrectly states that while the DIR has been in place that reliability has significantly decreased on AEP Ohio's system. Table 1 in OCC's comments, starting with 2010, shows that CAIDI was 139.98 and for 2015 an improved value at 139.03. Making a blanket statement that reliability keeps getting worse each year is plainly contradicted by the table. For SAIFI, in 2010 the value was 1.10 and by 2015 the value was 1.13. This is only a minor variance of 0.03. Indeed, using 2010 as a baseline, SAIFI was actually lower than 2010 for two years between 2011 and 2015. Therefore, the OCC cannot support its statement that reliability is getting worse each year while the DIR is in place.

The OCC state that the reliability performance data from AEP Ohio only reflects those outages which occur during "blue sky" days that AEP Ohio has direct control over. This is incorrect. While major events are excluded from the reliability numbers shown, there are multiple storms throughout the year which are not excluded from the final reliability numbers. These storms do have a negative impact on reliability. These storms will bring with them high winds, lightning, ice and snow all which negatively impact reliability. While various programs under the DIR help protect against outages for these various storm events, not all outages can be prevented. OCC's comments also infer that AEP Ohio has direct control over all outage causes. Outages caused from vehicle accidents, third-party dig-ins, etc. are not under the Company's control. While AEP Ohio can help mitigate against the number of customers impacted by these types of outages, the Company cannot prevent them. Therefore, stating that AEP Ohio's reliability values reflect only "blue sky" days and reflect all outage cause codes under their control is not accurate.

The OCC comments (at 6) assert that the Company filed reliability data based on separate operating companies from 2010 through 2012 and state that they, the OCC, combined the data using a customer weighted bases (see Table 1). AEP Ohio has concerns with the OCC using a method to combine the SAIFI and CAIDI values by means of weighted averages instead of combing these numbers in the proper IEEE 1366 methodology for calculation reliability indices. Therefore, the values shown on OCC's Table 1 from years 2010 through 2012 are incorrect for most values given, further indicating OCC's lack of expertise in analyzing reliability metrics.

II. The DIR investments are prudent for delivering benefits to customers and the AEP Ohio system

The OCC claims that the DIR investments are not prudent due to the fact that a reduction of outage minutes across all outage causes has not occurred. This logic does not support what the DIR program addresses. The OCC mentions that there are 3 to 4 top outage causes which are: equipment/hardware failures, trees inside and outside of right of way (ROW), and scheduled/planned outages. The DIR Program would only have an impact on 2 of the 4 programs shown, already showing the OCC's logic in this argument is flawed and further demonstrating the OCC's lack of expertise in analyzing reliability data. The DIR program does not impact trees outside ROW outages nor does it prevent scheduled/planned outages.

The OCC inappropriately combined both trees inside and outside ROW data to distort the values and make false claims. Nowhere in the filings which the OCC cites information sources did AEP Ohio combine these two separate outage causes. The reason AEP Ohio does not combine these outage causes is because one is under AEP Ohio's direct control, trees inside of ROW. In Case No. 16-1511-EL-ESS, Staff commented on the benefits of the Enhanced Service Reliability Rider and stated, "Since its inception, the percentage of outages, customer interruptions, and customer minutes interrupted caused by trees inside the Right-of-way when compared to all outage causes have decreased significantly". (Staff comments page 3.) Further, on page four of Staff's comments there are charts which show tree inside ROW outages were around 3,000 per year during the 2005-2008 timeframe and have dropped to well under 1,000 outages per year for the last three years. Indeed, the importance of the vegetation management rider as well as the success from the program is clearly backed up by factual information showing the benefits of the vegetation management program to the customers of AEP Ohio.

AEP Ohio did spend money in 2015 as part of the DIR to help reduce tree outside ROW outages from ash trees affected by the emerald ash borer. This work helped prevent outages which would have occurred from these trees, prior to the outage having a direct negative impact on reliability, precisely as the DIR is intended as part of the proactive approach. While this program focused on ash trees, tree outages from trees located outside the ROW have been increasing. AEP Ohio does what it can to help prevent these outages from occurring although the Company does not always have permission from property owners to remove trees from outside its ROW. Because of this, this outage cause category is not fully under AEP Ohio's direct control to reduce outages as the OCC claims. Increasing outages due to cause codes of which AEP Ohio does not control, has no direct correlation to how the DIR investments are improving reliability on the system. AEP Ohio submits a report each year to Staff with expected reliability improvements due to the DIR work. That report shows expected reliability improvements made within the outage categories of which the DIR directly impacts. Stating that the DIR program is misaligned with Commission expectation because outage like vehicle accidents are causing more overall outages from 2012-2015 has no relevant correlation between money being spend for the DIR program and actual results from the DIR program.

The scheduled or planned outages are taken to safely replace equipment and hardware. AEP Ohio will generally work with customers during these types of planned outages to ensure the customer knows the outage is occurring as well as have an expectation as to the length of the outage. Customers generally appreciate the fact that AEP Ohio is communicating such planned events as well as letting customer know about the work we are doing to try and improve their reliability. While these outages are under the control of AEP Ohio, in order for the work to be performed safely, the Company cannot prevent such outages for scheduled work. In order to prevent these outages, the Company would not be able to bring the benefits necessary to upgrade the system. However, there is a difference in communicating the outage and customers understanding why the outage occurs in comparison to other types of outages where this communication is not possible. The DIR program should not be considered based solely on the metrics of the number of outages AEP Ohio experience in a year, the program addresses very specific outage types and does improve or maintain reliability in those areas. The scheduled/planned outages in particular from OCC's Table 2 are truly telling of the work being completed on the Company's system. For instance, the planned outages in 2013 in comparison to 2012 show an increase of 8,537 outages, more than the total increase listed of 7,217. In 2014 as compared to 2012 the scheduled/planned outages increased by 9,180, again, more than the increase in the total. Lastly the scheduled and planned outages in 2015 as compared to 2012 are 5,883 higher, again, higher than the total.

Perhaps the most important factor in the scheduled and planned outages is the necessity of the outage in order to complete work safely and efficiently. It is not prudent for the Company to halt work on the system or engage in unsafe activity in order to avoid a planned outage. This type of outage is necessary to complete the benefits to customers through the DIR. Excluding these necessary outages further demonstrates that all other categories, even those outside of the Company's control, have in fact decreased since inception of the DIR. as shown on OCC's Table 2.

In conclusion, reliability values over the past six years have been relatively stable and within a range of 5.5% from where the values were in 2010; not representing an increasingly downward trend of reliability values as the OCC claims. As one example, increases due to causes from vehicle accidents do not accurately reflect the impact from the DIR program. However, looking at outage causes and analyzing the underlying cause of the outage one can determine the benefit of the DIR. Asserting as a blanket statement that the DIR program should reduce every type of outage is not in the scope of the DIR program. The Commission should find that the 2015 DIR spend was prudent and based on reports provided to Staff, the DIR did maintain or improve reliability on the system.

III. Prudent implementation of Commission orders and accounting treatment

i. Accounting Capitalization Policy Change

OCC is incorrect to assert that AEP Ohio improperly applied accounting updates. The argument actually stems from the 2014 DIR filing where the Auditor found no such improper application. The company periodically reviews capitalization polices and also looks for any Financial Accounting Standards Board (FASB) changes in order to reflect any needed policy changes. The change attached by OCC was a company-wide change to more accurately reflect the work performed by employees and done in a prudent manner. OCC makes an assumption that AEP Ohio is already recovering certain employee time in base rates. But the OCC's comments on the accounting change are misleading because employee time for job site safety meetings have always been charged to capital. The change only included an allocation of employee time for non-job site safety meetings.

The Company made an appropriate change to more accurately reflect accounting policy that the Auditor in the 2014 DIR did not find was imprudent. Even the OCC admitted in its comments in Case No. 15-066-EL-RDR that "The modified capitalization policy does not appear to be improper" (OCC comments at page 9). Yet, OCC seeks a change in the DIR due to the Company's prudent change in policy. In its Opinion and Order (February 25, 2015) in the *ESP III* proceeding (Case Nos. 13-2385-EL-SSO et al.), the Commission ordered (at 44-47) the Company to "highlight and quantify" any accounting policy changes as they relate to its capitalization policy. It is appropriate for the Staff to have this information in order to review the policy changes for accuracy and prudence as the Auditor reviews the Company's controls and policies. The scope of those changes should be limited to accuracy and prudency because the DIR is not an O&M tracker.

OCC's argument is also without merit as the DIR mechanism was not approved to reflect such changes. The Company filed testimony in *ESP III* that showed that the level of O&M increases with additional capital investment. However, the approved DIR mechanism did not include a separate carrying charge component for O&M. As such, the DIR mechanism examines the change in net plant and allows the company a return on and of prudent capital expenditure. The final approval of the DIR did not include a mechanism to adjust O&M and as such does not provide for recovery of O&M associated with plant additional regardless if the plant additions increase or decrease O&M. OCC mistakes the DIR as an opportune to pick and choose items from the rate case to track and make changes. This practice runs afoul of the regulatory compact and the limited scope of specific riders versus the overall application of Commission orders implementing rates. The Commission holds parties to the scope of the audit and to the issues raised by the auditor (*In the Matter of the Five Year Review of Natural Gas Company Uncollectible Riders*, 08-1229-GA-COI, Entry on Rehearing December 14, 2011, the Commission determined comments raised exceeded the scope of the items raised by the auditor in the audit and declined their adoption; *see also*, *Re Columbus Southern Power*, 10-268-EL-FAC, May 14, 2014 Opinion and Order, the Commission determined that IEU's arguments on recovery exceeded the scope of the audit and therefore was not relevant).

The Commission should recognize that a base distribution case is set on a test year at a certain period of time. There is a risk of utility total expenses in future periods being higher than those included in the test year, but there is also a risk that the total expense in any given year will be lower than the test year. This risk occurs naturally in years between utility rate cases. In some years the total expense could be higher than the test year and in some years the total expense could be lower than the test year. If the Commission orders an adjustment based on the small faction of labor, it is addition additional risk to the utility as the balance of this risk is now weighted towards always assuming the expenses are higher as there is no mechanism for the utility to collect more O&M in years between base rate cases. As such, the Commission should ignore the OCC's recommendations.

ii. The Company has appropriately implemented the Commission's *ESP III* decision

OCC argues that the Company has not implemented the Commission's order in *ESP III* in terms of the property tax adjustment stating that this adjustment has not occurred (OCC Comments page 13). However, the Company did implement the Commission's Order through its June 2015 DIR filing. The *ESP II* term for the DIR went through May 31, 2015 and the Company appropriately made the adjustments to the DIR in its June 2015 filing. The Commission should reject OCC's indication that the Company did not comply with the Commission order.

iii. Tax Modifications

Internal Revenue Service Revenue Procedure 2011-43 provides a "safe harbor" election for determining the retirement unit of property for tax purposes. If adopted, this "safe harbor" election will enable certain expenditures being capitalized for financial purposes to qualify for a current tax deduction as a repair expense. The Revenue Procedure has several requirements as to how the tax repair deduction amount is determined, some of which were transitional in nature.

In order to implement the “safe harbor” method a company must be able to classify its work order activity in conformity with the requirements listed in the Revenue Procedure.

The two main hurdles for the Company to overcome related to the classification of substation work order expenditures and the test for the replacement of poles and conductor. For poles and conductor, the Revenue Procedure allowed a current tax repair deduction for replacements so long as 10% or less of the poles or conductor on the specific circuit was replaced on any given work order. The computation is to be made on a circuit specific basis. Section 5.03 (h) (3) of Revenue Procedure 2011-43 did provide a transition rule for computing the repair amounts for pole and conductor replacements. It allowed a company to use the average circuit size within a county during a transition period. Once the transition period ended, the circuit specific information would be required for continued compliance with the Revenue Procedure. For substation property, the Revenue Procedure had different criteria for determining what was eligible for deduction. The Company’s accounting systems at the time the Revenue Procedure was issued did not support the level of detail needed to perform the computations required by the Revenue Procedure for an ongoing implementation of the change in tax accounting method. In 2015 the Company completed an update of its main electric plant accounting software. This upgrade supports the computations needed by the Revenue Procedure. In 2015 and 2016 the Company upgraded the “feeder” systems to capture the information needed by the main plant accounting software to make the computations. With these upgrades/modifications implemented the Company is now in a position to implement the “safe harbor” method described in Revenue Procedure 2011-43. Having an accounting system in place to ensure post-implementation compliance is necessary in order to meet the ongoing substantiation requirements of the Revenue Procedure.

The company is currently (2017) undertaking a study to capture the information needed to implement a change in tax accounting method to adopt the “safe harbor” election on the 2017 tax return. Thus the company is proceeding in a prudent and sustainable manner in pursuing the adoption of the “safe harbor” election for tax repairs.

The availability of bonus depreciation at either 50% or 100% acts as an offset to the benefit of claiming the tax repairs under Revenue Procedure 2011-43 and lessens the favorable impact of the repair deduction. The Auditor did not find nor is there any basis for finding any actions in this area are imprudent.

IV. Reply to Staff’s comments that the audit recommendations be adopted

The Staff filed comments recommending adoption of the auditor’s recommendation. The Company replies to two specific recommendations in order to provide the information necessary to show that the cost of certain meter purchases from affiliated companies as well as meter purchases themselves are in fact in line with the Company’s policy around meter purchases and operations.

As part of Audit Report recommendation number 7, Blue Ridge recommended that the Company should provide the data necessary to prove that the meters purchased at net book value from affiliate Companies represent the lowest cost alternative. The Company stated that it would work with the Staff. In order to address the Staff’s initial comments recommending the Commission adopt the auditor’s recommendations, the Company is addressing the recommendations through reply comments.

In its initial response to the data request, AEP Ohio provided the affiliated Company purchase agreement which included the prudency of the purchase. Nonetheless, in order to further validate the benefit of the agreement, the Company is providing that the savings to AEP

Ohio customers for the affiliate meter purchases for 2015 were approximately $64,000. These savings were calculated by adding the accumulated depreciation of all meters purchased by AEP Ohio as compared to the total cost if AEP Ohio had purchased the meters.

Additional data is being provided by AEP Ohio in reference to the Staff's recommendation that the Commission adopt the recommendations of Blue Ridge. In particular, Blue Ridge audit recommendation number eight included proving that the cost of the meters for Work order 7900299 was in line with the cost of other meters. In the response, the Company provided the cost per meter for three work orders, including the work order in question in order to prove that the costs were in line with other meter purchases. However, Blue Ridge attests that the Company did not provide the data necessary. In order to provide the appropriate detail, the Company is submitting the information through its reply comments.

Indeed, the amount of the work order in question would show that the average cost per unit for work order 7900299 is $321.86. This average cost was based on all purchases and units in 2015. For purposes of these reply comments, the Company randomly sampled two months on invoices, January and July, 2015 in order to provide useful information to assist the Commission in its determination of the Company's prudent purchases. There were 91 invoices associated with 2015 meter purchases for this particular work order. In order to maintain confidential pricing of our vendors, the Company will provide a summary of the items purchased as well as the purchase price. The invoices can be reviewed at the request of Staff or Blue Ridge if the Commission determines greater detail is needed.

It is important to note that there are meter transformers that are capitalized to the meter account as well. It is also important to note that different types of meters have different costs. For instance, meters capable of registering kWh and kW are more expensive than traditional meters without this capability. A sample of the invoices will show that the more expensive meters capable of registering kWh and kW cost approximately $227. Other less sophisticated AMR meters cost between 33 and 35 dollars. However, the invoices selected included six invoices for meter transformers. These transformers are like the meters in that the more sophisticated transformers are more expensive. As an example, of the invoices selected, the more sophisticated transformers had a unit cost of $845, $960 and $1,515 per unit. Other less sophisticated meter transformers cost $69 per unit.

The Company asserts that its policy for procurement is reasonable and that Blue Ridge is aware of the procurement process of the utility and that the determination of the processes reasonableness alone is sufficient to conclude that the costs paid by the Company are in line with other meters purchased. A review of the data responses show that the Company did in fact answer the question as Blue Ridge proposed. Although the Company provided the average of three work orders in order to show how the average meter costs of all meters purchased compared, the data included provided the actual cost of the purchases as well as the number of units for each work order separately and the information could be concluded in the discovery response as answered by the Company.

CONCLUSION

In conclusion, the Commission should determine that the Company has implemented its DIR in line with all prior Commission orders, the audit recommendations have been addressed through both comments and reply comments in a manner that provides the facts necessary to determine that the audit recommendations are now moot. In addition, the Commission should find that the comments filed by OCC are misguided and the Company has addressed the OCC's comments and represented that it has provided the necessary detail, in addition to the auditors conclusion of reasonableness of the DIR program, to come to a conclusion that the DIR was prudent and no hearing is necessary in this case. There are no necessary adjustments to the DIR as the Company has provided that the inclusion of compensation cost components are appropriate and in line with capitalized labor in the base distribution case, has provided the necessary information that its procurement process and purchases for certain meter and metering equipment both brought value to customers and were reasonable, the Company is addressing the systems and testing necessary to implement certain tax benefits, the Company has followed all previous Commission orders, the change in the capitalization policy was in fact reasonable and the DIR is not meant to be an O&M tracker, and the DIR is providing reliability benefits to the customers of AEP Ohio and is operating as intended.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing has been served upon the below-named counsel via electronic mail, this 5th day of June, 2017.

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