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Legal Department

December 19, 2017

The Honorable Greta See
The Honorable Sarah Parrot
Attorney Examiners
Public Utilities Commission of Ohio
180 East Broad Street
Columbus Ohio 43215-3793

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Re: In the Matter of the Review of the Distribution Investment Rider Contained in the Tariff of Ohio Power Company, Case No. 14-255-EL-RDR; In the Matter of the Review of the Distribution Investment Rider Contained in the Tariff of Ohio Power Company, Case No. 15-66-EL-RDR; In the Matter of the Review of the Distribution Investment Rider Contained in the Tariff of Ohio Power Company, Case No. 16-21-EL-RDR

Dear Attorney Examiners:

I am pleased to submit the enclosed Stipulation and Recommendation for the Commission's consideration in resolving these cases. I have been informed that, while the Ohio Consumers' Counsel (OCC) is not a signatory party, the OCC will file a statement in these dockets indicating its non-opposition to this settlement.

Thank you for your attention to this matter.

Respectfully Submitted,

cc: Parties of Record

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Review of the)
Distribution Investment Rider) Case No. 14-255-EL-RDR
Contained in the Tariff of Ohio)
Power Company)

In the Matter of the Review of the)
Distribution Investment Rider) Case No. 15-66-EL-RDR
Contained in the Tariff of Ohio)
Power Company)

In the Matter of the Review of the)
Distribution Investment Rider) Case No. 16-21-EL-RDR
Contained in the Tariff of Ohio)
Power Company)

JOINT STIPULATION AND RECOMMENDATION

I. Introduction

Rule 4901-1-30 of the Ohio Administrative Code provides that any two or more parties¹ to a proceeding may enter into a written stipulation covering the issues presented in such a proceeding. This document sets forth the understanding and agreement of the parties who have signed below (“Signatory Parties”)² and jointly present to the Public Utilities Commission of Ohio (“Commission”) this Joint Stipulation and Recommendation (“Stipulation”) in order to resolve all of the issues raised in all three above-captioned proceedings involving the Distribution Investment Rider (“DIR”) of Ohio Power Company (“AEP Ohio” or the "Company").

This Stipulation is a product of lengthy, serious, arm’s-length bargaining among the Signatory Parties and other parties who chose not to sign the Stipulation (all of whom are

¹ Staff is a party for purposes of this Stipulation. Ohio Adm. Code 4901-1-10(C).

² OCC, OMAEG and The Kroger Company were granted intervention in Case No. 15-66-EL-RDR and OCC was also granted intervention in Case Nos. 14-255-EL-RDR and 16-21-EL-RDR.

capable, knowledgeable parties), which negotiations were undertaken by the Signatory Parties to settle this proceeding. All intervenors were invited to discuss and negotiate this Stipulation and it was openly negotiated among those stakeholders who responded and chose to participate. This Stipulation is supported by adequate data and information. As a package, the Stipulation benefits customers and the public interest, provides direct benefits to residential and low income customers, represents a just and reasonable resolution of all issues in this proceeding, violates no regulatory principle or practice, and complies with and promotes the policies and requirements of Title 49 of the Ohio Revised Code. This Stipulation represents an accommodation of the diverse interests represented by the Signatory Parties and, though not binding, is entitled to careful consideration by the Commission. For purposes of resolving the issues raised by these proceedings, the Signatory Parties agree to fully support adoption of the Stipulation without modification in this proceeding and stipulate, agree, and recommend as set forth below.

II. Recitals

WHEREAS, the Commission approved the DIR for AEP Ohio as part of its *ESP II* decision (Case Nos. 11-346-EL-SSO *et al.*) and its *ESP III* decision (Case Nos. 13-2385-EL-SSO *et al.*);

WHEREAS, Case No. 14-255-EL-RDR was commenced by the Commission to conduct the 2013 DIR Audit which was performed by the Auditor, Larkin & Associates;

WHEREAS, Case No. 15-66-EL-RDR was commenced by the Commission to conduct the 2014 DIR Audit which was performed by the Auditor, Baker Tilly;

WHEREAS, Case No. 16-21-EL-RDR was commenced by the Commission to conduct the 2015 DIR Audit which was performed by the Auditor, Blue Ridge;

WHEREAS, all parties engaged in settlement discussions concerning the issues identified in comments concerning the 2013-2015 DIR Audits;

WHEREAS, this Stipulation represents a serious compromise of complex issues and involves substantial benefits that would not otherwise have been achievable, and it is not intended to reflect the views or proposals which any individual party may have advanced acting unilaterally; and

WHEREAS, the Signatory Parties believe that the agreements herein represent a fair and reasonable resolution of the issues raised in these cases;

NOW, THEREFORE, the Signatory Parties stipulate, agree, and recommend that the Commission should issue its decision in these proceedings accepting and adopting this Stipulation and relying upon its provisions as the basis for resolving all issues raised by these proceedings.

III. Joint Recommendations of Signatory Parties

The Signatory Parties recommend that the Commission adopt without modification the terms and conditions of the Stipulation to fully adjudicate and resolve these proceedings:

A. The scope of this settlement is Distribution Investment Rider 2013, 2014, and 2015 audit proceedings

On a confidential basis and for settlement purposes only, the Signatory Parties agree to pursue a settlement package in accordance with the following provisions, with the end result being to fully address all of the issues in Case Nos. 14-255-EL-RDR, 15-66-EL-RDR, and 16-21-EL-RDR. Audit recommendations not addressed in this settlement have either been implemented or are in the process of being implemented. The Parties agree that the Company will provide the actual SAIFI and CAIDI reliability performance for 2011 and 2012 for the

combined Columbus Southern Power and Ohio Power Company electric utilities both including and excluding major events pursuant to Ohio Admin. Code 4901:1-10-01(T) so that reliability performance pre-DIR and post-DIR can be more accurately compared.

The Parties agree that in preparing its Annual DIR Work Plan, the Company will continue to prioritize to the extent practical and reasonable programs that are intended to reduce outage events, customers interrupted and customer minutes interrupted based on the causes that each represent at least ten percent of the customers interrupted as reflected in the Annual Reliability Report pursuant to Ohio Admin. Code 4901:1-10-10(C)(3)(a). Separate and apart from the Company's normal interactions with Staff, the Company agrees to meet annually with the Signatory Parties and non-opposing parties to explain the extent in which the DIR Work Plan is being adapted to address causes within the Company's control that each represent at least ten percent of the outages in the Annual Reliability Report and/or to explain the rationale for why this is not practical or reasonable. In addition, the Company will also provide annual updates to the Signatory Parties and non-opposing parties demonstrating the quantifiable impact that those DIR programs have had on customer reliability performance.

B. 2013 DIR Plan and Auditor Recommendations (Case No. 14-255-EL-RDR)

1. The Signatory Parties agree that the Company has implemented the recommendations made in the Larkin and Associates audit report and no further action is required.

Specifically, as of the transfer of Wheeling Power Company the DIR plan reports include only Ohio distribution spending. Accordingly, the Company has implemented quarterly processes of reconciling the total distribution plant with distribution capital expenditures.

[All Audit Rec.]

2. The Signatory Parties' understanding is that the Commission did not require either in its Opinion and Order or Entry on Rehearing ("Commission Orders") in Case No. 11-346-EL-SSO, which authorized the DIR, that the DIR be based on a cost benefit analysis. The Signatory Parties agree that that Company should estimate, if practical, a quantifiable benefit for any DIR programs that are expected to have a reliability improvement. The Company agrees to quantify the expected reliability benefit of such programs in the DIR Work Plan.
3. The Signatory Parties agree that the data related to the DIR Plan provided by the Company to the Commission Staff was sufficient to address the directives of the Commission's Order in Case No. 11-346-EL-SSO and no further action is required as a result of this case.
4. The Signatory Parties agree that the DIR Plan implemented through a collaboration of Staff and the Company was reasonable and no further changes or actions are required.

C. 2014 DIR Plan and Auditor Recommendations (Case No. 15-66-EL-RDR)

1. The Signatory Parties agree that AEP Ohio has implemented the necessary clarification items from the Baker Tilly audit report. [All Audit Rec.]
2. The Signatory Parties agree that the Company has made the appropriate adjustments to the meter data as discussed on page 12 of the audit report and no additional actions are required.
3. The Signatory Parties agree that the stipulated property tax rate used by the Company was appropriate and no further action is required.
4. The Signatory Parties agree that the Company's implementation of the tax accounting changes pursuant to the tangible property regulations is progressing in a timely manner

and the Company will provide for the Commission's review the quantification of these changes once the value has been recognized for tax purposes. The Company's implementation of such a change will be subject to further review and final approval in the annual compliance audits during which its implementation is occurring, but the question of whether the Company should have implemented the capital repairs deduction earlier than 2017 is fully and finally resolved through the Company making a one-time reduction to the 2018 DIR revenue requirement of \$2,142,337.62.

5. The Signatory Parties agree that the data provided by the Company related to the DIR Plan was sufficient to address the directives of the Commission's Order in Case No. 11-346-EL-SSO. AEP will commit to improve planning coordination between AEP Ohio's Distribution, Transmission, and Station organization. No additional action is required as a result of this case.
6. The Signatory Parties agree that the capitalization policy change was permissible within the GAAP rules. The Signatory Parties further agree that the Company will clearly state any impending capitalization policy changes in its quarterly filings, directly quantifying the value, if possible, and working with the Staff on alternative calculations if actual quantification is not possible. Such changes shall be subject to the Commission's approval and the Signatory Parties recommend the Commission approve such changes upon the effective date of the DIR quarterly filing unless otherwise suspended by the Commission.

D. 2015 Auditor Recommendations (Case No. 16-21-EL-RDR)

1. The Signatory Parties agree that the capitalization policy change as it related to 2014 was permissible within the GAAP rules. The Signatory Parties further agree that the Company

will clearly state any impending capitalization policy changes in its quarterly filings, quantifying the value, if possible and working with the Staff on alternative calculations if quantification is not possible. Such changes shall be subject to the Commission's approval and the Signatory Parties recommend the Commission approve such changes upon the effective date of the DIR quarterly filing unless otherwise suspended by the Commission.

2. The Signatory Parties agree that the Company has implemented the Commission's directive to adjust the property tax in the DIR from the ESP III filing and no further action is required.
3. The Signatory Parties agree that the Company's implementation of the tax accounting changes pursuant to the tangible property regulations is progressing in a timely manner and the Company will provide to the Commission for its review the quantification of these changes once the value has been recognized for tax purposes. The Company's implementation of such a change will be subject to further review and final approval in the annual compliance audits during which its implementation is occurring.
4. The Signatory Parties agree that Blue Ridge's audit recommendations 1 through 5 and 7 through 10 have been resolved through its audit report in the 2016 audit in Case No. 17-38-EL-RDR and no further action is required. The Company will continue to monitor as part of recommendation number 9 work orders that appear on the inactive work order report and will continue to monitor that no work orders are to remain open past 90 days.
[Audit Rec. 1-5 and 7-10]
5. The Signatory Parties agree that the recommendation number 6 from the Blue Ridge audit report is better addressed as part of the base distribution case to be filed by June 1,

2020. The Signatory Parties further agree that no such adjustment was made to the rate base in the Company's last base rate filing, Case Nos. 11-351-EL-AIR et al. [Audit Rec. 6]

E. The Three-Part Test for Commission Approval

The Signatory Parties agree that the Stipulation satisfies the three-part test traditionally used by the Commission to consider stipulations. Specifically, the Signatory Parties agree that:

1. the Stipulation is a product of serious bargaining among capable, knowledgeable parties representing diverse interests;
2. the Stipulation does not violate any important regulatory principle or practice; and,
3. the Stipulation as a whole, benefits customers and the public interest.

IV. Procedural Matters

A. The Signatory Parties agree that the following Exhibits will be deemed to be admitted into evidence in this proceeding:

1. The Audit Reports in each of the proceedings;
2. The Comments of each of the parties in each of the proceedings; and
3. Joint Exhibit 1 - This Stipulation and Recommendation.

B. Except for enforcement purposes or to establish that the terms of the Stipulation are lawful, neither the Stipulation nor the information and data contained herein shall be cited as a precedent in any future proceeding for or against any Signatory Party or any non-opposing party, or in any legislative matter before the General Assembly, if

the Commission approves the Stipulation. Nor shall the acceptance of any provision within this settlement agreement be cited by any party or the Commission in any forum so as to imply or state that any Signatory Party agrees with any specific provision of the settlement. More specifically, no specific element or item contained in or supporting this Stipulation shall be construed or applied to attribute the results set forth in this Stipulation as the results that any Signatory Party might support or seek, but for this Stipulation, in these proceedings or in any other proceeding. This Stipulation contains a combination of outcomes that reflects an overall compromise involving a balance of competing positions, and it does not necessarily reflect the position that one or more of the Signatory Parties would have taken on any individual issue. Rather, the Stipulation represents a package that, taken as a whole, is acceptable for the purposes of resolving all contested issues without resorting to litigation. The Signatory Parties believe that this Stipulation, taken as a whole, represents a reasonable compromise of varying interests.

C. The Signatory Parties will support the Stipulation if the Stipulation is contested, and no Signatory Party will oppose an application for rehearing designed to defend the terms of this Stipulation.

D. This Stipulation is expressly conditioned upon adoption of the Stipulation by the Commission in its entirety and without material modification; provided, however, that each Signatory Party and non-opposing party has the right, in its sole discretion, to determine whether the Commission's approval of this Stipulation constitutes a "material modification" thereof. If the Commission rejects or materially modifies all or any part of this Stipulation, any Signatory Party shall have the right, within 30

days after the issuance of the Commission's order, to apply for rehearing or to terminate and withdraw from the Stipulation by filing a notice with the Commission in this proceeding and serving all Signatory Parties. The Signatory Parties agree that they will not oppose or argue against any other Party's application for rehearing that seeks to uphold the original, unmodified Stipulation. Upon the Commission's issuance of an entry on rehearing that does not adopt the Stipulation in its entirety without material modification, any Signatory Party may terminate and withdraw from the Stipulation by filing a notice with the Commission within 30 days of the Commission's entry on rehearing.

- E. No Signatory Party shall file a notice of termination and withdrawal pursuant to Section IV.D without first negotiating in good faith with the other Signatory Parties to achieve an outcome that substantially satisfies the intent of the Stipulation. If a new agreement is reached, the Signatory Parties will file the new agreement for Commission review and approval. If the discussions to achieve an outcome that substantially satisfies the intent of the Stipulation are successful, some, or all, of the Signatory Parties shall submit the amended Stipulation to the Commission for approval after a hearing if necessary.
- F. Upon notice of termination or withdrawal by any Signatory Party, pursuant to the above provisions, the Stipulation shall immediately become null and void. In such event, this proceeding shall go forward at the procedural point at which this Stipulation and Recommendation was filed, and the parties will be afforded the opportunity to present evidence through witnesses, to cross-examine witnesses, to present rebuttal testimony, and to brief all issues that the Commission shall decide based upon the

record and briefs as if this Stipulation had never been executed.

G. Unless the Signatory Party exercises its right to terminate its Signatory Party status or withdraw as described above, each Signatory Party agrees to and will support the reasonableness of this Stipulation before the Commission, and to cause its counsel to do the same, and in any appeal it participates in from the Commission's adoption and/or enforcement of this Stipulation. The Signatory Parties also agree to urge the Commission to accept and approve the terms hereof as promptly as possible.

IN WITNESS WHEREOF, this Stipulation and Recommendation has been signed by the authorized agents of the undersigned Signatory Parties as of this 19th day of December, 2017.

SIGNATORY PARTIES:

/s/ Steven Beeler

William L. Wright, Section Chief
Steven Beeler
**On Behalf of the Staff of the Public Utilities
Commission of Ohio**

/s/ Steven T. Nourse

Steven T. Nourse
On Behalf of Ohio Power Company

/s/ Kimberly J. Bojko

Kimberly J. Bojko
On Behalf of the Ohio Manufacturers' Association Energy Group

NON-OPPOSING PARTY:

/s/ Angela Paul-Whitfield

Angela Paul-Whitfield

On Behalf of The Kroger Company

This foregoing document was electronically filed with the Public Utilities

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in

Case No(s). 14-0255-EL-RDR, 15-0066-EL-RDR, 16-0021-EL-RDR

Summary: Stipulation - Joint Stipulation and Recommendation electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company