THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE APPLICATION OF OHIO POWER COMPANY TO UPDATE ITS ENHANCED SERVICE RELIABILITY RIDER.	CASE NO. 15-1549-EL-RDR

FINDING AND ORDER

Entered in the Journal on September 5, 2018

I. SUMMARY

{¶ 1} The Commission approves the application of Ohio Power Company d/b/a AEP Ohio to adjust its enhanced service reliability rider, subject to Staff's updated recommendations.

II. DISCUSSION

{¶ 2} Ohio Power Company d/b/a AEP Ohio (AEP Ohio or the Company) is an electric distribution utility as defined in R.C. 4928.01(A)(6) and a public utility as defined in R.C. 4905.02, and, as such, is subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4928.141 provides that an electric distribution utility shall provide consumers within its certified territory a standard service offer (SSO) of all competitive retail electric services necessary to maintain essential electric services to customers, including a firm supply of electric generation services. The SSO may be either a market rate offer in accordance with R.C. 4928.142 or an electric security plan (ESP) in accordance with R.C. 4928.143.

{¶ 4} In Case No. 08-917-EL-SSO, et al., the Commission modified and approved AEP Ohio's application for an ESP, which included approval of the enhanced service reliability rider (ESRR) through which the Company recovers costs associated with its enhanced vegetation management program. The ESRR is subject to Commission review and reconciliation on an annual basis. *In re Columbus Southern Power Co. and Ohio Power Co.*, Case No. 08-917-EL-SSO, et al. (*ESP 1 Case*), Opinion and Order (Mar. 18, 2009), Entry on

Rehearing (July 23, 2009). In approving subsequent ESPs for AEP Ohio, the Commission has approved the continuation of the ESRR. *In re Ohio Power Co.*, Case No. 11-346-EL-SSO, et al. (*ESP 2 Case*), Opinion and Order (Aug. 8, 2012); *In re Ohio Power Co.*, Case No. 13-2385-EL-SSO, et al. (*ESP 3 Case*), Opinion and Order (Feb. 25, 2015); *In re Ohio Power Co.*, Case No. 16-1852-EL-SSO, et al. (*ESP 4 Case*), Opinion and Order (Apr. 25, 2018).

{¶ 5} On September 1, 2015, in the above-captioned case, AEP Ohio filed an application to reconcile its ESRR rate for 2014. AEP Ohio notes that its supporting schedule reflects an over-recovery of $1,682,426 during 2014. AEP Ohio proposes to decrease the ESRR rate from 7.34119 percent to 5.72422 percent of the customer's base distribution charges.

{¶ 6} Pursuant to the procedural schedule established on March 22, 2016, the Ohio Consumers' Counsel (OCC) filed a motion to intervene in this proceeding on March 31, 2016. No memoranda contra were filed. The Commission finds that OCC's motion for intervention is reasonable and should be granted.

{¶ 7} Comments on AEP Ohio's application were filed by Staff and OCC on April 7, 2016. Reply comments were filed by AEP Ohio and OCC on April 21, 2016.

{¶ 8} On February 23, 2018, Staff filed an update to its recommendations. AEP Ohio filed correspondence in response to Staff's updated position on April 13, 2018.

A. *Summary of the Parties' Positions*

1. Staff

{¶ 9} In its review and recommendations, Staff notes that its annual review of AEP Ohio's vegetation management program and the ESRR consisted of several components. First, Staff reviewed the actual mileage of vegetation trimmed and the Company's progress toward the goal of completing a five-year, catch-up trimming cycle by the end of 2014. Staff notes that the purpose of the ESRR is to enable AEP Ohio to complete its vegetation management program on a four-year cycle, meaning that all circuits are trimmed on an end-to-end basis every four years. Staff reports that, in 2014, AEP Ohio completed the five-year, catch-up period and then began a new four-year cycle. Second, Staff completed a physical verification of AEP Ohio's vegetation clearing activity in 2014. Staff selected a sample of 35 circuits, all of which showed evidence that vegetation line clearance work was conducted. Staff reports that 26 of the 35 circuits reflected no vegetation concerns, while moderate regrowth was detected on the other nine circuits. According to Staff, AEP Ohio indicated that it would visit the sites to assess whether additional trimming should occur prior to the next scheduled clearing cycle.

{¶ 10} Staff also completed a financial audit of the ESRR. Staff reviewed the incurred costs, including operations and maintenance (O&M) expenses and capitalized vegetation management costs, and the calculations to verify the accuracy of the revenue requirement. Staff also compared AEP Ohio's spending to authorized amounts. As a result of its financial audit, Staff notes that it identified transactions totaling $13,167.25 in O&M expenses that should be deducted from AEP Ohio's requested recovery. Specifically, Staff recommends a deduction of $3,948.26 for meals and other refreshments. Staff also recommends a deduction of $9,218.99 for miscellaneous charges related to a car wash, phone charger, and employee gift cards, as well as cell phone and pager expenses that were not adequately documented. Staff asserts that these O&M expenses should not be recovered from customers through the ESRR. Staff concludes that its adjustments result in an ESRR rate of 5.72215 percent.

{¶ 11} AEP Ohio replies that, in advocating for an O&M expense reduction, Staff confuses the calculation methodology for the ESRR, which, according to the Company, is designed to recover the costs of the vegetation management program less the amount recovered through base rates. With respect to cell phone and pager expenses, AEP Ohio asserts that such expenses have been included in base rates even prior to the start of the ESRR in 2009 and are properly recovered as necessary expenses that enable foresters to effectively and efficiently conduct their work processes. Regarding the meals and related expenses, AEP Ohio contends that many of the transactions opposed by Staff reflect prudent, normal, and necessary operational expenses for food provided at safety meetings, staff meetings, and training sessions or for meals purchased by employees when traveling in the field across the Company's service territory.

{¶ 12} In its reply comments, OCC responds that Staff should conduct a more comprehensive, thorough audit that focuses on the costs, benefits, and effectiveness of AEP Ohio's vegetation management program. OCC recommends that Staff examine trends in vegetation-related outages since the inception of the ESRR to determine whether the four-year, cycle-based vegetation management program is providing sufficient benefits to justify its significant cost. OCC also recommends that Staff conduct a comprehensive review of the vegetation management costs that are reflected in AEP Ohio's base rates and its distribution investment rider, in order to ensure that such costs are prudent, just, and reasonable and that customers are not being charged more than once for the same vegetation management services. Additionally, OCC notes that AEP Ohio's annual system improvement plan report, as filed in Case No. 16-996-EL-ESS, indicates that the Company did not meet its annual program goal in 2015 for vegetation management. OCC argues that, given the significant investment in vegetation management, it is unreasonable for AEP Ohio to have fallen short of its annual goal and, therefore, the Commission should protect customers by ensuring that the Company meets its tree-trimming obligations.

{¶ 13} In its updated review and recommendations, Staff states that, upon further analysis, it recommends no adjustment for the cell phone and pager expenses totaling $9,071.63. Staff notes that it agrees with AEP Ohio's position that the cell phones are used solely for the Company's vegetation management program. Regarding the meals and related expenses, Staff agrees with AEP Ohio that $185.15 in gasoline expenses for vehicles used by the Company's foresters should not be excluded from the ESRR. Staff concludes that its revised adjustments result in a recommended disallowance of $3,910.47 and an ESRR rate of 5.72360 percent of base distribution charges.

{¶ 14} In response, AEP Ohio replies that, although it does not agree with all of Staff's updated recommendations, the Company accepts Staff's updated position as a reasonable outcome in this case.

2. OCC

{¶ 15} In its comments, OCC argues that AEP Ohio has not provided any evidence in support of the application and, therefore, has not sustained its burden of proof. OCC contends that neither the Commission nor the intervenors can determine whether AEP Ohio's vegetation management spending is accurately reflected in the application, is just and reasonable under R.C. 4905.22, or is consistent with the Commission's orders approving the ESRR. OCC also notes that AEP Ohio has provided no basis for increasing the carrying charge rate from 14.19 percent in 2013 to 15.02 percent in 2014. Additionally, OCC asserts that, although AEP Ohio has collected over $340 million through base rates and the ESRR for vegetation management since 2009, customers nevertheless experienced 1.2 million hours of tree-related outages in 2014, while certain types of tree-related outages have increased since implementation of the ESRR in 2009. OCC argues that it is not just or reasonable to charge customers for a program that does not help to maintain reliable service for customers. OCC concludes that the Commission should require AEP Ohio to provide evidence in support of its application and then closely scrutinize the Company's vegetation spending to ensure that customer dollars are being used to effectively and efficiently reduce tree-related outages.

{¶ 16} AEP Ohio responds that OCC attempts to relitigate a process that the Company already supported and the Commission approved in the *ESP 2 Case*. AEP Ohio also notes that, in the present proceeding, the Company supported its vegetation management costs and calculations through the discovery and audit process, providing approximately 5,000 transactions and nearly 500 pages of invoices. With respect to the carrying charges, AEP Ohio notes that the Commission modified the weighted average cost of capital rate, which is an input to the carrying charge calculation, in the *ESP 3 Case*. Further, AEP Ohio maintains that the outage data referenced by OCC is not based on the

2014 period under review and erroneously includes major storm events. Noting that OCC relies almost exclusively on data for trees out of the right of way that are not under AEP Ohio's unilateral control, the Company concludes that its vegetation management program has successfully delivered reliability results for customers, while the Company will continue to collaborate with property owners to address trees out of the right of way.

B. *Commission Conclusion*

{¶ 17} Upon review of AEP Ohio's application to reconcile its ESRR and Staff's updated recommendations, the Commission finds that the application does not appear to be unjust or unreasonable and that it should be approved, with modifications. The Commission adopts Staff's total recommended adjustment of $3,910.47, as set forth in Staff's updated review and recommendations filed on February 23, 2018, with the new ESRR rate shown below:

Current Rate	Approved Rate	Approved Decrease
7.34119 percent	5.72360 percent	1.61759 percent

{¶ 18} The Commission agrees with Staff that adjustments should be made to disallow the meal and other miscellaneous expenditures identified by Staff in its updated recommendations. AEP Ohio has not sufficiently demonstrated how these expenditures relate to the types of expenses that are properly recoverable through the ESRR. The food and beverage expenses are described as having been incurred for the purpose of routine business lunches and meetings, which appear to have no specific relation to the ESRR or offer any direct and primary customer benefit. As we have previously found, such expenses should not be borne by ratepayers. *In re Ohio Power Co.*, Case No. 14-1578-EL-RDR, Finding and Order (June 3, 2015) at 5-6.

{¶ 19} Turning to OCC's position, the Commission notes that OCC has offered no recommendations regarding any particular expenditures or any of Staff's proposed adjustments. Instead, OCC questions the scope of Staff's review of the application. Contrary to OCC's claim, we find that Staff has conducted a thorough investigation in this matter. Specifically, Staff examined the schedules filed by AEP Ohio to ensure consistency with prior ESRR cases and to confirm that proper accounting treatment was applied. Staff's audit included a review of AEP Ohio's schedules for completeness, occurrence, presentation, valuation, allocation, and accuracy through a combination of document review, interviews, data requests, and, in some cases, physical verification of vegetation line clearance. We, therefore, do not agree with OCC's contention that AEP Ohio's ESRR costs have not been subject to sufficient prudency review or that the costs have not been determined to be just and reasonable.

{¶ 20} We also reject OCC's claim that the benefits of AEP Ohio's vegetation management program have not been sufficiently examined. In prior cases authorizing the ESRR, the Commission has fully considered the benefits of AEP Ohio's vegetation management program in maintaining and improving electric reliability, ultimately determining that the Company should take reasonable and proactive steps with respect to its tree-trimming and other vegetation clearance activities. *See, e.g., ESP 1 Case,* Opinion and Order (Mar. 18, 2009) at 32-33; *ESP 3 Case,* Opinion and Order (Feb. 25, 2015) at 49. The Commission continues to find that the ESRR supports a preventive vegetation management program intended to facilitate AEP Ohio's efforts to reduce the impact of weather events and minimize tree-related outages and service interruptions. We also note that OCC will have a full and fair opportunity, in AEP Ohio's upcoming distribution rate case, to address the issue of whether the ESRR affords sufficient customer benefits. *ESP 4 Case,* Opinion and Order (Apr. 25, 2018) at ¶ 111.

{¶ 21} Finally, the Commission finds no merit in OCC's assertion that AEP Ohio provided insufficient documentation in support of its application, including the carrying cost rate. As AEP Ohio noted in its reply comments, the necessary supporting documentation was provided through the course of Staff's review of the Company's application and was also available to OCC through the discovery process. In its review and recommendations, Staff indicated that documentation was requested as needed until Staff was either satisfied that the costs were substantiated or concluded that an adjustment was warranted. Regarding the carrying charges, the Commission approved, in the *ESP 3 Case*, AEP Ohio's proposed weighted average cost of capital rate, which is an input to the carrying charge calculation for the ESRR. *ESP 3 Case*, Opinion and Order (Feb. 25, 2015) at 83.

{¶ 22} Accordingly, upon review of the application and the parties' comments, the Commission finds that it is not necessary to hold a hearing in this matter. We authorize AEP Ohio to file revised tariffs to implement the updated ESRR rate, consistent with this Finding and Order.

III. ORDER

{¶ 23} It is, therefore,

{¶ 24} ORDERED, That OCC's motion for intervention be granted. It is, further,

{¶ 25} ORDERED, That AEP Ohio's application be approved, subject to Staff's updated recommendations filed on February 23, 2018. It is, further,

{¶ 26} ORDERED, That AEP Ohio be authorized to file tariffs, in final form, consistent with this Finding and Order. AEP Ohio shall file one copy in this case docket and one copy in its TRF docket. It is, further,

{¶ 27} ORDERED, That the effective date of the new tariffs shall be a date not earlier than the date upon which the final tariff pages are filed with the Commission. It is, further,

{¶ 28} ORDERED, That AEP Ohio notify all customers of the changes to the tariffs via a bill message or bill insert within 45 days of the effective date of the tariffs. A copy of this customer notice shall be submitted to the Commission's Service Monitoring and Enforcement Department, Reliability and Service Analysis Division, at least ten days prior to its distribution to customers. It is, further,

{¶ 29} ORDERED, That nothing in this Finding and Order shall be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 30} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Asim Z. Haque, Chairman

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