BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the 2016 Review of the Distribution Investment Rider Contained in the Tariff of Ohio Power Company.	))))	Case No. 17-0038-EL-RDR
In the Matter of the 2017 Review of the Distribution Investment Rider Contained in the Tariff of Ohio Power Company.	))))	Case No. 18-0230-EL-RDR

COMMENTS
BY
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL

I. INTRODUCTION

The Distribution Investment Rider ("DIR") is one of the 31 riders that customers of Ohio Power Company ("AEP Ohio") are charged on their monthly bills,[1] in addition to AEP Ohio's base distribution rates. This case involves the independent audit of distribution investment costs charged to AEP Ohio customers through the DIR during 2016 and 2017. Collections from customers through this rider were capped at $146.2 million for 2016 and $170 million for 2017.[2]

On February 8, 2017, the Public Utilities Commission of Ohio ("PUCO") issued an Entry in Case No. 17-38-EL-RDR ordering the PUCO Staff to begin the process for choosing an auditor to review the 2016 DIR costs. A similar Entry was issued in Case

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[1] *See* AEP Ohio Tariff No. P.U.C.O. No. 20, 13th Revised Sheet No. 104-1D and 104-2D.

[2] *In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 13-2385-EL-SSO, et al., Opinion and Order (February 25, 2015) at 47.

No. 18-230-EL-RDR on February 21, 2018 for the audit of 2017 DIR costs. Blue Ridge Consulting Services ("Blue Ridge") was chosen for both audits.[3] Blue Ridge's audit report for 2016 costs was docketed in Case No. 17-38 on August 10, 2017. Its audit report for 2017 costs was docketed in Case No. 18-230 on August 23, 2018. The PUCO established a procedural schedule for both cases on August 30, 2018, through a single Entry in both dockets.

In response to the Entry, the Office of the Ohio Consumers' Counsel ("OCC"), an intervenor in these cases,[4] submits these Comments. OCC is concerned that despite the significant charges to customers through the DIR, customers are not receiving improved service reliability from AEP Ohio. In fact, the average duration of outages in AEP Ohio's distribution system is becoming longer for customers. But the PUCO directed that AEP's DIR spending be focused on programs that will improve customers' service reliability.[5] "Service reliability" standards in Ohio are measured both as the number of outages as well as the average amount of time it is taking to restore service following an outage. [6] These Comments support and expand upon certain Blue Ridge recommendations from the 2016 and 2017 audit reports that reduce the amount of money AEP Ohio is collecting from customers through the DIR.

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[3] Case No. 17-38-EL-RDR, Entry (March 22, 2017); Case No. 18-230-EL-RDR, Entry (March 28, 2018).

[4] OCC filed its Motion to Intervene in Case No. 17-38 on November 27, 2017 and in Case No. 18-230 on March 23, 2018.

[5] *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan.,* Case No. 11-346-EL-SSO, Opinion and Order (August 8, 2012 at 46).

[6] Ohio Adm. Code 4901:1-10-10(B).

II. AEP-OHIO SERVICE RELIABILITY ANALYSIS

When the PUCO's approved the DIR, it found that the DIR and the replacement of aging infrastructure under the DIR would "facilitate improved service reliability."[7] The DIR has been in effect since 2012 and has provided AEP Ohio with the authority to expedite the collection of well over a billion dollars in distribution infrastructure charges from customers.[8] The PUCO has also found that the DIR should be providing quantifiable reliability benefits for customers.[9] However, while the System Average Interruption Frequency Index ("SAIFI") performance has remained about the same, the Customer Average Interruption Duration Index ("CAIDI") performance has declined. The SAIFI reliability standard is a measure of the total number of interruptions an average customer will experience in a year. The CAIDI reliability standard is a measure of the average duration of an outage. The PUCO has reliability performance standards for the SAIFI and CAIDI for each of the Ohio electric utilities.[10]

One factor that complicates any reliability analysis for AEP Ohio is that before 2013, Columbus Southern Power ("CSP") and Ohio Power Company ("OPC") were operated as two distinct electric utilities under AEP Ohio. The reliability performance for each Utility was measured and reported separately. Beginning in 2013, the utility operations for CSP and OPC were consolidated and the measurement and reporting of

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[7] *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan.,* Case No. 11-346-EL-SSO, Opinion and Order (August 8, 2012 at 46).

[8] *In the Matter of the Commission's Review of the Ohio Power Company's Distribution Investment Rider Work Plan for 2017*, Case No. 18-0109-EL-UNC, DIR Work Plan (January 17, 2018 at 4).

[9] In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan., Case No. 11-346-EL-SSO, Opinion and Order (August 8, 2012) at 47.

[10] Ohio Administrative Code 4901:1-10-10.

reliability performance was combined. To help evaluate the impact of the DIR over time, Table 1 provides a summary of what the reliability performance would have been in 2011 and 2012 (Pre-DIR) for a consolidated CSP and OPC with the reliability performance 2013-2017 (Post-DIR) for the consolidated AEP Ohio.

Table 1: AEP Ohio Reliability Performance Pre-DIR/ Post DIR (2011 – 2017)

Year	SAIFI	CAIDI
	PRE-DIR PERFORMANCE	
2011	1.19	142.9
2012	0.98	144.2
	POST-DIR RELIABILITY	
2013	1.03	140.97
2014	1.13	146.61
2015	1.13	139.03
2016	1.08	143.45
2017	1.15	146.02

Comparing pre-DIR performance for 2011 and 2012 with post-DIR performance in 2017, the SAIFI is slightly lower (meaning fewer interruptions) in 2017 compared with 2011. However, the SAIFI performance is much higher in 2017 compared with 2012 (meaning customers are having more interruptions). Comparing the pre-DIR CAIDI performance for 2011 and 2012 with post-DIR performance in 2017, customers are having longer interruptions in 2017. In fact, the average outage duration is over three minutes longer now than before the DIR was initiated in 2011.

II. RECOMMENDATIONS

A. The PUCO should require AEP Ohio to reduce its net distribution plant by at least $1.7 million to reflect the removal of incentive pay compensation that Blue Ridge determined to be inappropriately included for collection from customers.

As part of the 2016 DIR audit, Blue Ridge observed that several of the work orders that were reviewed included costs that were inappropriate for inclusion in the DIR.[11] Based on a relatively small sample of work orders, Blue Ridge identified $138,511 referenced to AEP Ohio's accounting system in (accounts) "cost elements" 141, 143, 145, 154, and 155 that relate to incentive compensation pay that should not have been included in DIR, and should not be collected from customers.[12] Blue Ridge extrapolated that $353,207 in inappropriate costs were included for 2016 and further extrapolated that because of AEP Ohio's treatment of incentive compensation, the net distribution plant could be overstated by approximately $1.7 million since DIR was initiated.[13] Blue Ridge recommended that AEP Ohio review the total population of work orders included in the DIR and remove the incentive compensation costs associated with cost elements 141, 143, 145, 154, and 155 from the DIR.[14]

OCC recommends that the PUCO adopt this Blue Ridge recommendation. AEP Ohio should file a report that identifies the total amount of the distribution plant overstatement because of the inclusion of incentive compensation within 30 days of the PUCO approving an order in this case. The removal of the incentive compensation costs

[11] Case 17-32-EL-RDR, Compliance Audit at page 8.

[12] Id.

[13] Id.

[14] Id.

(at least $1.7 million) from the DIR should then be reflected as a reduction to charges to customers in the next quarterly filing.

B. The PUCO should require AEP Ohio to perform an analysis to determine the most cost-effective manner to procure capital spares.

Blue Ridge observed that there were three work orders in the sample of work orders that were audited that included the purchase of capital spares.[15] The three work orders totaled $1,860,202 and involved the purchase of spare transformers that may be needed to replace other transformers if they fail.[16] Since this equipment is very expensive, yet is only used as spares, Blue Ridge recommended that AEP Ohio examine other options that may be available to obtain access to transformers if needed. Blue Ridge suggested that renting expensive capital equipment like transformers from other utilities may be a more cost-effective options for obtaining the equipment when needed.[17]

While the Blue Ridge recommendation was specific for transformers, there can be other very expensive equipment that is being purchased as spares under the DIR. To ensure that consumers pay rates that are no more than are reasonable, OCC recommends that the PUCO have Blue Ridge complete a more comprehensive examination of work orders in the next DIR audit to determine if more cost-effective methods can be used to procure capital spares.

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[15] Case 17-38-EL-RDR, Blue Ridge Compliance Audit at page 48.

[16] Id.

[17] Id.

C. The PUCO should require AEP Ohio to verify to the satisfaction of the auditor that no inappropriate vegetation management expenses were included in the DIR for collection from customers.

Since the types of capital costs that are collected from customers under the DIR can potentially be double collected from customers in base rates or other riders, the PUCO has ordered that the auditor for DIR audits must be able to confirm that there is no double recovery from customers. [18] Consistent with this order, Blue Ridge in the cases here reviewed the incremental vegetation management costs that are collected from customers through the Enhanced Service Reliability Rider ("ESRR") and took exception to certain capital costs that are potentially included in the DIR.[19]

Blue Ridge reported that it was unable to verify that the vegetation management costs that exceeded the $27.6 million ESRR limit were not being collected from customers through the DIR.[20] Without such verification, there is the potential for customers to be charged by AEP Ohio for vegetation management through the ESRR, DIR, and base rates. OCC recommends that the PUCO require Blue Ridge as part of its next DIR audit to conduct a more thorough examination of the vegetation management costs being collected by AEP Ohio through the DIR and verify that customers are not paying the same costs multiple times through other riders or base rates. The auditor should also verify that AEP Ohio has a reasonable policy for determining which vegetation management expenses are capitalized and is properly recording these costs.

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[18] In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan., Case No. 11-346-EL-SSO, Opinion and Order (August 8, 2012) at 47.

[19] Case 18-0230-EL-RDR, 2017 Compliance Audit at page 12.

[20] Id.

Any improper vegetation management costs that have been collected by AEP Ohio under the DIR should be removed through an adjustment to the rider.

D. Future DIR spending should be focused on both programs that reduce the number of power outages *and* programs that help reduce the duration of outages.

AEP Ohio files a DIR work plan each year that includes specific information about each of the DIR programs, including the expected reliability improvement.

AEP Ohio should examine in the 2019 work plan if any of 2018 programs should be modified to further reduce the number of outages. It should be noted that very few of the 2018 programs are specifically designated to reduce the duration of outages. In fact, the only specific DIR program that is targeted to reduce outage durations is the Line Reclosers Maintenance program.[21] OCC recommends that as part of the DIR planning process for 2019, AEP Ohio research and implement cost-effective programs designed specifically to improve distribution system reliability as measured by CAIDI and SAIFI performance standards.

III. CONCLUSION

To protect consumers, OCC recommends adoptions by the PUCO of the foregoing comments. These recommendations include reviewing the DIR work plan to identify programs that can help reduce the duration of outages. In addition, OCC supports several of the Blue Ridge audit recommendations that help reduce the costs of the DIR that are being paid for by consumers.

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[21] Id.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Comments was served on the persons stated below via electronic mail this 26th day of October 2018.

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