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. 17-38-EL-RDR
In the Matter of the 2017 Review of the Distribution Investment Rider Contained in the Tariff of Ohio Power Company.	)))	Case No. 18-230-EL-RDR

REPLY COMMENTS
SUBMITTED ON BEHALF OF THE STAFF OF THE PUBLIC UTILITIES COMMISSION OF OHIO

The following are Staff's reply comments regarding the Blue Ridge Consulting Services, Inc. (Blue Ridge) compliance audit reports of 2016 and 2017.

I. Response to the 2016 DIR Audit Report Recommendations

Recommendation 1

As noted in the Stipulation in Case No. 16-21-EL-RDR, the Signatory Parties agreed that this recommendation is better addressed in AEP Ohio's upcoming rate case given the commitment by Ohio Power Company d/b/a/AEP Ohio (AEP Ohio) and the Commission's directive that the Company file a rate case by June 30, 2020. As Staff has made clear in recent rate cases (DP&L Case No. 15-1830-EL-AIR, Duke Energy Ohio Case No. 17-32-EL-AIR and Vectren Case No. 18-298-EL-AIR) the inclusion of these costs for recovery by rate payers is inappropriate. In its initial comments, AEP Ohio argues that the non-recovery of these costs by rate payers is a ban on its right to compensate its employees. It is not Staff's intention that AEP Ohio be prohibited from paying such compensation to its employees; it is only the recovery of these costs that is not appropriate to be recovered by rate payers. The more appropriate recovery of these costs is from AEP Ohio's investors that directly benefit from this kind of incentive.

Recommendation 2

By AEP Ohio's comments, Staff believes this recommendation has been addressed and no further action is necessary.

Recommendation 3

The Staff agrees that this recommendation has been addressed and no further action is necessary.

Recommendation 4

While Staff does not believe Recommendation D.4. is based on a major quantitative discrepancy between the DIR and FERC accounts, AEP Ohio should nonetheless either: (1) show the FERC balances in its filings to demonstrate the reconciliation between the DIR and FERC filings or (2) provide an affirmative statement that the AEP Ohio has done so, noting the discrepancies or reconciliation adjustments that have been made. Blue Ridge correctly points out that this is the requirement contained in the Commission's Order in Case No. 16-21-EL-RDR. However, Staff reiterates that there is not a substantive reconciliation issue between the DIR filing accounts balances and AEP Ohio's reported FERC accounts balances.

Recommendation 5

By AEP Ohio's comments, Staff believes this recommendation has been addressed and no further action is necessary.

Recommendation 6

By AEP Ohio's comments, Staff believes this recommendation has been addressed and no further action is necessary.

Recommendation 7

In its comments with respect to Recommendation G.7., AEP Ohio does not believe that renting a mobile transformer from a third party would be cost effective. However, AEP Ohio fails to explain why owning an idle spare is more cost effective than borrowing the equipment from an affiliate. Furthermore, as the capital spares are not used and useful, their inclusion for recovery in the DIR appears inappropriate. At this time Staff continues to support the recommendation of Blue Ridge to further explore this issue. In particular, Staff recommends that the next audit quantify the types, ages, and dollar values of the capital spares in AEP Ohio's inventory for 2016 through 2018. The next audit should also discuss the specific accounting authority wherein it is appropriate for capital spares to be capitalized. Should the Commission determine that such accounting treatment is unwarranted, AEP Ohio should be directed to remove the cost of capital spares from the DIR revenue requirement.

Recommendation 8

AEP Ohio responds to this recommendation by indicating that its Capital Program Approval Requisition Process already requires that there be documentation of alternatives and reason for selection of alternatives. However, Blue Ridge has cited to examples of where the documentation of the alternatives explored does not support that the alternatives were, in-fact, actually explored by AEP Ohio. Therefore, Staff continues to concur with the recommendation made by Blue Ridge.

Recommendation 9

AEP Ohio's response to Blue Ridge's recommendation is contradictory. The Company states that it disagrees with Blue Ridge's recommendation, but then goes on to state that AEP Ohio does monitor its projects through monthly project monitoring reports. In the monthly reports, if the project is over by 20%, the Company requires that the Capital Program Approval Requisition form be revised (the reason for the overage be stated) and that the revision have senior management approvals. Given that the DIR provides for the almost immediate commencement of capital recovery spending by AEP Ohio, it is important that prudent oversight of that spending is occurring on a continuous basis. Therefore, Staff continues to support Blue Ridge's recommendation.

Recommendation 10

AEP Ohio's response focuses on the removal of the contractor for safety reasons. AEP Ohio's response is laudable and the Staff does believe that AEP Ohio takes safety very seriously. However, the second half of Blue Ridge's recommendation – having project work plans be complete at the inception of a large project – was left unaddressed. Staff continues to support Blue Ridge's general recommendation but does not believe specific changes are needed to AEP Ohio's processes at this time – other than the Company reviewing large project work plans to ensure they are complete. However, Staff recommends that the Commission include, within the audit scope next year, a specific directive to review the completeness of work plans associated with large projects, specifically projects which are estimated to cost $250,000 or higher.

Recommendation 11

While AEP Ohio indicates that it agrees with this recommendation, Staff recommends that next year's DIR audit again include this review, and provide an analysis of the issue should the amount of inactive work orders increase.

Recommendation 12

By AEP Ohio's comments, Staff believes this recommendation has been addressed and no further action is necessary.

II. Response to 2017 DIR Audit Report Recommendations

Recommendation 1

AEP Ohio spends much time discussing why removing a tree reduces the threat of outages and equipment damage. AEP Ohio has an accounting policy that assumes a tree with a diameter of 18 inches or greater was not cut during initial right of way (ROW) clearing, so removing it now must be considered "initial clearing." Initial clearing can be capitalized, rather than be treated as a maintenance expense. AEP Ohio states that the subsequent removal of a tree should be capitalized as it provides a long term benefit to its system because: (1) it will take years for the tree to grow back and (2) after removal there is no longer a threat to its system. AEP Ohio further states that the Company adheres to FERC guidelines that initial clearing activity is capitalized and all subsequent activity is maintenance. However, it is how AEP Ohio chooses to define "initial clearing" that is at question. In short, AEP Ohio has mutated the definition of "initial clearing" to encompass not the act of clearing a new ROW or expanding a ROW, but rather to how big the Company chooses to let a tree get before it decides to remove it. As stated in AEP Ohio's comments, it takes approximately 22 years for a tree to grow to a diameter of 18 inches. In that time, AEP Ohio will have completed four maintenance-trimming cycles and yet not have maintained that tree by removing it when it was much smaller. AEP Ohio makes passing reference to obtaining a private property owner's permission to remove a tree. Staff is uncertain how this is responsive to AEP Ohio not maintaining its ROW. AEP Ohio also provides discussion that there have been times when the trees were small and an engineer or ROW agent decided the removal of trees was not cost saving. These few examples do not explain why subsequent removal of the tree should be capitalized. This activity should be recoverable by AEP Ohio, but as a maintenance expense item, not as a capitalized asset of which AEP Ohio earns both a return on investment and the cost of the removal.

Recommendation 2

See Staff's response to AEP Ohio's response to Blue Ridge's 2016 DIR Audit Report Recommendation 4 above.

Recommendation 3

See Staff's response to AEP Ohio's response to Blue Ridge's 2016 DIR Audit Report Recommendation 1 above.

Recommendation 4

See Staff's response to AEP Ohio's response to Blue Ridge's 2016 DIR Audit Report Recommendation 10 above.

Recommendation 5

This matter has been resolved. Staff recommends that 2018 DIR Compliance audit review the treatment of the TCJA impact within the DIR and the DIR's conformance to the TCJA resolution as embodied in Case No. 18-1007-EL-UNC.

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PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Reply Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail upon the following Parties of Record, this 16th day of November, 2018.

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