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. 16-2154-EL-RDR

FINDING AND ORDER

Entered in the Journal on December 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, as filed on March 20, 2018.

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., 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., Opinion and Order (Aug. 8, 2012); *In re Ohio Power Co.*, Case No. 13-2385-EL-SSO, et al., Opinion and Order (Feb. 25, 2015); *In re Ohio Power Co.*, Case No. 16-1852-EL-SSO, et al., Opinion and Order (Apr. 25, 2018).

{¶ 5} On November 1, 2016, in the above-captioned case, AEP Ohio filed an application to reconcile its ESRR rate for 2015. In the application, AEP Ohio notes that its supporting schedule reflects an over-recovery of $14,439,986 during 2015. AEP Ohio proposes to decrease the ESRR rate to 3.48459 percent of the customer's base distribution charges.

{¶ 6} Staff filed its review and recommendations on August 10, 2017, and AEP Ohio filed reply comments on October 6, 2017. On February 22, 2018, Staff updated its review and recommendations, which were corrected by Staff on March 20, 2018. AEP Ohio filed correspondence in response to Staff's updated position on April 16, 2018.

{¶ 7} Pursuant to the procedural schedule established on August 30, 2018, the Ohio Consumers' Counsel (OCC) filed a motion to intervene in this proceeding on September 14, 2018. No memoranda contra were filed. The Commission finds that OCC's motion for intervention is reasonable and should be granted.

{¶ 8} Comments on AEP Ohio's application were filed by OCC on September 21, 2018. Reply comments were filed by AEP Ohio on October 5, 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 completed a financial audit of the ESRR to ensure prudency of the incurred costs, including operations and maintenance (O&M) expenses and capitalized vegetation management costs, and to verify the accuracy of the revenue requirement calculation. As a result of its financial audit, Staff notes that it identified transactions totaling $32,183.03 in O&M expenses that should be deducted from AEP Ohio's requested recovery. Specifically, Staff recommends the following deductions: $10,474.10 for exempt labor that was performed in 2014 rather than 2015; $1,600.00 for a tribute/memorial; $9,033.45 in business expenses identified by AEP Ohio as costs that should be excluded; $285.64 for expenses associated with meals and a car wash; and $10,789.84 for cell phone and pager expenses recovered in base rates. Staff concludes that its adjustments result in an ESRR rate of 3.47951 percent. Additionally, Staff notes that the total amount of overtime labor for work performed by outside contractors was $2.3 million, or about 7.3 percent, of the total labor dollars spent during the audit period. According to Staff, AEP Ohio explained that this amount is attributable to contract employee turnover. Staff recommends that AEP Ohio strive to minimize the amount of overtime charged to the ESRR.

{¶ 10} Staff also completed a physical verification of AEP Ohio's tree trimming activity in 2015. Staff selected a sample of 40 circuits, all of which showed evidence that vegetation line clearance work was conducted. Staff reports that 37 of the 40 circuits reflected no vegetation concerns. Although moderate regrowth was detected on the other three circuits, Staff notes that no vegetation was making contact with the electric conductors. 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. Finally, to complete its audit, Staff compared AEP Ohio's spending to authorized amounts.

{¶ 11} In response to Staff's audit, AEP Ohio replies that, in advocating for an O&M expense reduction, Staff continues to confuse 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 costs, AEP Ohio asserts that Staff's recommended disallowance of $10,789.84 includes not only O&M expenses, but also consists of $2,054.49 in capital costs that should not be excluded. In response to Staff's position that the cell phone and pager costs must already be recovered through base rates, AEP Ohio argues that individual costs are not tracked as to whether they are included in the incremental or base portion of the Company's vegetation management program. According to AEP Ohio, Staff should not pick and choose which expenses are included as incremental versus base. AEP Ohio concludes that Staff's recommendation to exclude the cell phone and pager expenses precludes the Company from obtaining full recovery of the prudent costs of its forestry program. Next, AEP Ohio states that Staff's disallowance of payroll accruals from December 2014 that were reconciled in 2015 is incorrect and inconsistent with the approved methodology that the Company has used to account for such expenses since 2010. Finally, AEP Ohio notes that, although it disagrees with Staff's exclusion of $1,600.00 for a tribute/memorial and $285.64 in employee business expenses, the Company is willing to accept those reductions to resolve this proceeding.

{¶ 12} In its updated review and recommendations, as corrected, Staff states that it agrees that AEP Ohio has shown that the Company properly recorded $10,474.10 in exempt labor expense in the proper period. Staff, therefore, recommends no adjustment in this area. Staff also agrees with AEP Ohio's position regarding the cell phone and pager expenses totaling $10,789.84 and, accordingly, recommends no adjustment. Staff concludes that its revised adjustments result in a recommended disallowance of $10,919.09 and an ESRR rate of 3.48287 percent of base distribution charges.

{¶ 13} 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

{¶ 14} In its comments, OCC notes that, for the year 2015, AEP Ohio collected from consumers about $14 million more for tree trimming and vegetation management than its costs. Acknowledging that AEP Ohio has proposed to return the over-collection to customers through a reduced ESRR rate, OCC requests that the Company be required to compensate customers for the time value of their money for the period that this case has been pending. Specifically, OCC recommends that AEP Ohio be directed to immediately return the over-collection to customers, with interest at a rate equal to the carrying cost rate that the Company collects through the ESRR. OCC adds that the frequency of AEP Ohio's outages worsened from 2013 to 2015.

{¶ 15} In its reply comments, AEP Ohio responds that OCC's position regarding the frequency of outages ignores that the primary purpose of the ESRR is to enable the Company to trim or remove trees within the right of way. AEP Ohio notes that its reliability performance in this area improved from 2013 to 2015. AEP Ohio also asserts that the Commission should deny OCC's inappropriate request for interest on the over-recovery for 2015. According to AEP Ohio, OCC disregards the difference between appropriate carrying charges that the Company is authorized to collect on capital investments recovered through the ESRR and the interest that OCC seeks to have applied to over-recoveries. AEP Ohio states that, since the inception of the ESRR, any over- or under-collections have been passed back to customers or collected from customers, without interest or carrying charges, over the year immediately following the Commission's approval of the ESRR application. AEP Ohio concludes that this proceeding should not be used to re-litigate the merits or mechanics of the ESRR.

B. Commission Conclusion

{¶ 16} Upon review of AEP Ohio's application to reconcile its ESRR, Staff's updated recommendations, and OCC's comments, 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 $10,919.09 and proposed ESRR rate of 3.48287 percent of base distribution charges, as set forth in Staff's updated review and recommendations filed on March 20, 2018. The change in the ESRR rate is summarized below:

Current Rate[1]	Approved Rate	Approved Decrease
5.72360 percent	3.48287 percent	2.24073 percent

{¶ 17} Although the Commission does not find that interest should be assessed on the over-recovery for 2015, we direct AEP Ohio to periodically evaluate, prior to the filing of its annual applications to adjust the ESRR rate, the Company's vegetation management spending and collections in an effort to avoid significant over- or under-recoveries. If AEP Ohio determines that its spending or collections are or will be substantially different than anticipated, the Company should file an application to modify the ESRR rate for the remainder of the rate period.

{¶ 18} 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

{¶ 19} It is, therefore,

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

{¶ 21} ORDERED, That AEP Ohio's application be approved, subject to Staff's updated recommendations, as filed on March 20, 2018. It is, further,

{¶ 22} 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,

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1 The current rate was authorized by the Commission in Case No. 15-1549-EL-RDR. *In re Ohio Power Co.*, Case No. 15-1549-EL-RDR, Finding and Order (Sept. 5, 2018).

{¶ 23} 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,

{¶ 24} 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,

{¶ 25} 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,

{¶ 26} 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

M. Beth Trombold

Thomas W. Johnson

Lawrence K. Friedeman

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SJP/sc

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Barcy F. McNeal
Secretary