

**BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

In the Matter of the Review of the )  
Distribution Investment Rider ) Case No. 18-230-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 parties<sup>1</sup> 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”)<sup>2</sup> 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 capable, knowledgeable parties), which negotiations were undertaken by the Signatory Parties to settle this proceeding. All intervenors were invited to discuss and negotiate this

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

<sup>2</sup> The Office of the Ohio Consumers; Counsel was granted intervention in both proceedings but is not participating in the Stipulation.

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.*), its *ESP III* decision (Case Nos. 13-2385-EL-SSO *et al.*) and its *ESP IV* decision (Case Nos. 16-1852-EL-SSO *et al.*);

WHEREAS, Case No. 17-38-EL-RDR was commenced by the Commission to conduct the 2016 DIR Audit which was performed by the Auditor, Blue Ridge;

WHEREAS, Case No. 18-230-EL-RDR was commenced by the Commission to conduct the 2017 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 2016-2017 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. 2016 DIR Plan and Auditor Recommendations (Case No. 17-38-EL-RDR)**

The 2016 DIR Plan and Auditor Recommendations (Case No. 17-38-EL-RDR) are restated below along with the Signatory Parties' recommendation (in italics) for each:

1. Blue Ridge recommended that work order costs associated with cost elements 141,143,145,154 and 155 be removed from the DIR. These are costs that, in Blue Ridge's opinion, are not payroll-related, or an appropriate overhead cost that benefits the projects(s)

*The Signatory Parties agree that the Commission approved Stipulation in Case Nos. 14-255-EL-RDR, 15-66-EL-RDR and 16-21-EL-RDR provided that this issue is better addressed as part of the base distribution case to be filed by June 1, 2020.*

2. Blue Ridge recommends that if the Distribution Business Rules for Authorizing Capital Projects is still in use in its current form, it should make mention within that document of the superseding status of the 2016 new Improvement Requisition Policy and Procedures.

*The Signatory Parties agree that the 2017 DIR audit report determined that no additional work is required for this 2016 recommendation because the Distribution Business Rules for Authorizing Capital Projects is no longer in use.*

3. Blue Ridge recommended that the Company highlight and quantify the capitalization change regarding the establishment of a retirement unit for Energy Control Devices and Displays and any other changes to the capitalization policy in the DIR filing preceding the implementation of the change.

*The Signatory Parties agree that the 2017 DIR audit report determined that no additional work is required for this 2016 recommendation because the requirement has been agreed to as part of the Stipulation approved in Case Nos. 14-255-EL-RDR, 15-66-EL-RDR, and 16-21-EL-RDR.*

4. Blue Ridge recommended that the Company, in compliance with the Commission's order, provide the reconciliation of the DIR account balances to the FERC Form 1 within the DIR filings as ordered by the Commission.

*The Signatory Parties agree that to the extent there is a difference between the FERC FORM 1 and the DIR filings that the Company will state such difference in the letter accompanying the quarterly DIR filings or state that no such difference exists if that is the case.*

5. Blue Ridge recommended that the Company follow through with the error discovered regarding the retirements for work order 42263333 and reclassify the associated \$145,000 to the proper work order.

*The Signatory Parties agree that the 2017 DIR audit report determined that no additional work is required for this 2016 recommendation because AEP Ohio has made the correction.*

6. Blue Ridge recommends that the vegetation management schedule in the DIR include the plant accounts and subaccounts.

*The Signatory Parties agree that the 2017 DIR audit report determined that no additional work is required for this 2016 recommendation. AEP Ohio has clarified that the vegetation management schedule in the DIR does include all the vegetation accounts and subaccount.*

7. Blue Ridge recommended the issue of the Company's inclusion of capital spares in the DIR be given further review. The Company should look into borrowing capital spares, if it makes economic sense, or, at a minimum, perform an analysis to compare renting versus the purchase of a capital asset.

*The Signatory Parties agree that a further review by the next DIR auditor of the capital spares activity will be conducted in a future DIR audit.*

8. Blue Ridge recommended that the Company, in order to complete the project justification, document all alternatives (operation and/or economic), providing the reason(s) one alternative is better than another and, if savings are estimated, indicated how those savings are to be realized. If no alternatives were considered, document the reason(s) as well.

*The Signatory Parties agree with this recommendation that the Company continue its current practice and no changes to that practice are necessary at this time. The documentation in the Alternatives Considered project justification will be again reviewed in a future audit to determine if AEP is consistently conducting an alternatives review.*

9. Blue Ridge recommended that the Company continue to manage to the budget and document reasons for overage or underage of actual charges whether those reasons are outside or within the direct control of the Company in order to demonstrate that the budget variance did not result from lack of budget management control.

*The Signatory Parties agree with this recommendation that the Company continue its current practice and no changes to that practice are necessary at this time.*

10. Blue Ridge recommended that when large projects are developed, the Company place a greater emphasis on ensuring the work plan is complete and that the contractors performing the work understand the requirements from both work and safety perspectives.

*The Signatory Parties support this recommendation but do not believe that specific changes to AEP Ohio's processes are needed at this time.*

11. Blue Ridge recommended the Company continue to monitor inactive work orders that appear on the report, striving to resolve outstanding issues within a reasonable time frame of six months to reduce the total dollar value of inactive work orders.

*The Signatory Parties agree with this recommendation that the Company continue its current practice and no changes to that practice are necessary at this time.*

12. Blue Ridge recommends that the Company correct the Standard Fringe Factor that included the non-productive time rate twice.

*The Signatory Parties agree that the 2017 DIR audit report determined that no additional work is required for this 2016 recommendation. AEP Ohio has made the correction.*

#### **B. 2017 DIR Plan and Auditor Recommendations (Case No. 18-230-EL-RDR)**

The 2017 DIR Plan and Auditor Recommendations (Case No. 18-230-EL-RDR) are restated below along with the Signatory Parties' recommendation (in italics) for each:

1. Blue Ridge recommends that the Company, in its vegetation management policy, better define capital and expense work associated with clearing the Rights of Way so as to be in accordance with the FEC Code of Accounts for those activities. Specifically, any vegetation management activity on an existing right of way, other than what may come about because of storm restoration, should be considered expense.

*This recommendation is addressed in Paragraph III.B.6 below.*

2. Blue Ridge recommends, as it did in the Compliance Audit report of the 2016 DIR that the Company comply with the Commission's order by including the reconciliation of the DIR account balances to the FERC Form 1 within the DIR filing. Specifically, the Commission's opinion and order Case 13-2385-EL-SSO,

dated February 25, 2015, stated “we further modify the DIR to adopt the six recommendations by Staff regarding detailed account information and the reconciliation between functional ledgers an FERC Form filings.

*The Signatory Parties agree that to the extent there is a difference between the FERC FORM 1 and the DIR filings that the Company will state such difference in the letter accompanying the quarterly DIR filings or that no such difference exists if that is the case.*

3. Blue Ridge recommends that the Commission consider the capital status of cost element 148 along with the other incentive-associated cost elements in the next base distribution case. In the DIR, audit’s report in Docket 17-0038-EL-RDR, Blue Ridge recommended that certain cost elements associated with incentive compensation be removed from the DIR report. In considering Blue Ridge’s recommendation, the Commission approved the stipulation that this issue would be better addressed as part of the base distribution case to be filed June 2020. The Signatory Parties agree that this issue should be addressed in the rate case.

*The Signatory Parties agree that the Commission approved Stipulation in Case Nos. 14-255-EL-RDR, 15-66-EL-RDR and 16-21-EL-RDR provided that this issue is better addressed as part of the base distribution case to be filed by June 1, 2020.*

4. Blue Ridge recommends that large projects be more closely scoped out in the field to try to mitigate potential impediments that could increase the project estimate or increase the schedule, delaying the project completion.

*The Signatory Parties support this recommendation but do not believe that*

*specific changes to AEP Ohio's processes are needed at this time.*

5. Blue Ridge's recommends that the next DIR audit review the compliance of that filing with the Commission's final decision in the Company's requested AEP Ohio-specific tax reform docket (Case No. 18-1007-EL-UNC) to facilitate the Company's implementation of the TCJA.

*The Signatory Parties agree with this recommendation.*

6. Regarding recommendation #1 in the 2017 Audit, the Signatory Parties agree to the following:
  - a. AEP Ohio will start expensing inside and outside ROW tree removals starting with the new base rates becoming effective after the upcoming AIR case.<sup>3</sup> The period between the date of this settlement and the date the new rates become effective as a result of the AIR filing will be referred to as the "transition period." The Company will continue its current accounting approach for tree removal during the transition period. During the transition period, outside ROW tree work will only be capitalized if it involves removal of danger trees. In this context, a danger tree is a tree that is structurally unsound (*e.g.*, has signs of disease, extreme leaning, or other defects such as splits, etc.) and could strike the power lines when it falls.

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<sup>3</sup> If FERC issues accounting guidance in the future that supports a different result, the Signatory Parties reserve the right to request Commission approval of a new capitalization policy to supersede this agreement.

- b. For initial clearing of ROW and for widening projects, tree removal for the expanded ROW portion may still be capitalized during and beyond the transition period. Initial clearing shall be defined as the activity to remove vegetation from a company ROW when that ROW is first established (including tree growth regulator and first herbicide application). When a ROW is permanently expanded beyond the previously established ROW, the activity to remove vegetation from the area necessary to widen the existing ROW to the newly expanded ROW may be capitalized. The Company will document the circumstances when it is necessary to permanently expand a ROW.
- c. During the transition period, the Company will, through a mutually acceptable process, periodically work with Staff to update and coordinate on danger tree program activity and anticipated funding levels.
- d. The Company will provide baseline data for outside ROW tree outages for the relevant circuits in a timely manner. During the transition period, the Company will provide data showing outside ROW tree outages for each circuit where danger tree work was performed for each year following completion of such work.
- e. The Company commits to achieving an improvement in the outside ROW tree outages based on danger tree removal work done during the transition period, as compared to the baseline outage data for the period prior the transition period. The improvement will be measured by the Company-wide number of outside ROW outages caused by danger trees for each

year during the transition period and for the two years subsequent to the transition period (this is the measurement period). The Company may exclude outages during the measurement any outside ROW tree outage that was caused by a tree falling onto the line that was not a danger tree (*e.g.*, a lightning strike or storm caused the tree to fall). If there is not an improvement for a given year during measurement period, the Company will submit a written report to the Signatory Parties analyzing and explaining why there was no measured improvement for that circuit and submit a new plan for achieving an improvement. For example, one such explanation might be that the areas where danger tree work was completed improved while other areas where work has not yet been completed deteriorated.

7. In Paragraph III.J.17 of the ESP IV stipulation (adopted by the Commission), several issues relating to the ESR are to be revisited in conjunction with the AIR case (*e.g.*, continuation, level of base rate funding, and whether there is an ESP cap). That exercise as part of the AIR case will also consider going forward danger tree expense levels at that time. None of those issues are being resolved in the current settlement.

#### **IV. 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.

**V. 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 V.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 2<sup>nd</sup> day of July, 2019.

**SIGNATORY PARTIES:**

/s/ Steven Beeler  
John H. Jones, Section Chief  
Steven Beeler, Assistant Section Chief  
**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**

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**7/2/2019 2:55:16 PM**

**in**

**Case No(s). 17-0038-EL-RDR, 18-0230-EL-RDR**

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