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October 31, 2019

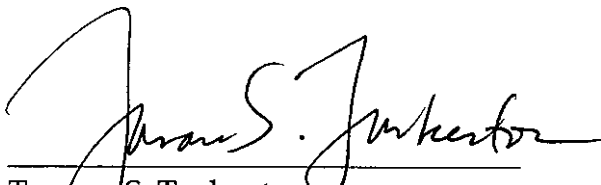
Docketing Division  
Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus OH 43215

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PUCO

RE: *In the Matter of the gridSMART Phase 2 Rider for Ohio Power Company, Case No. 18-783-EL-RDR.*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the gridSMART Phase 2 Rider for Ohio Power Company in Case No. 18-783-EL-RDR.

  
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Tamara S. Turkenton  
Director, Rates & Analysis Department  
Public Utilities Commission of Ohio

  
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David Lipthrott  
Chief, Research and Policy Division  
Public Utilities Commission of Ohio

Enclosure

Cc: Parties of Record

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Technician Dmm Date Processed 10/30/19

**Ohio Power Company  
Case No. 18-783-EL-RDR**

**SUMMARY**

On April 28, 2017, Ohio Power Company (Ohio Power or Company) filed to initiate this case in accordance with the February 1, 2017 Opinion and Order in Case No. 13-1939-EL-RDR (gridSMART Phase 2 Order). The gridSMART Phase 2 Order requires the Company to move approved Phase 1 assets to the DIR, and to transfer any unrecovered O&M balance into the gridSMART Phase 2 rider. The order also requires quarterly filings with automatic approval 30 days after the filing unless otherwise determined by the Commission.

On January 29, 2019, Ohio Power filed its update for the fourth quarter 2018. Staff began its audit after the rates from the fourth quarter became effective Cycle 1 March 2019. During the course of the audit, Staff reviewed O&M expenses and revenues as well as the addition of capital assets from January 2018 through December 2018.

**STAFF REVIEW AND RECOMMENDATIONS**

In its review, Staff examined the as-filed schedules for consistency with the Commission's Opinion and Orders in previous gridSMART cases to ensure proper accounting and regulatory treatment was applied. The audit consisted of a review of the financial statements for completeness, occurrence, presentation, valuation, allocation and accuracy. Staff conducted this audit through a combination of document review, interviews and interrogatories.

Additionally, Staff examined the capital assets that were placed in service by the Company. Staff accomplished its review through examining Company plant records and by conducting a series of on-site physical inspections of selected assets located at Company-owned facilities and in residential areas. Through the inspections, Staff sought to verify that the assets selected for review are being used by the Company to provide service to customers.

Staff has completed its review of the filing and finds that the Company has appropriately included in its gridSMART rider only those costs that are incurred as a result of serving its retail customers in Ohio, with the exception of the following recommended adjustments totaling \$114,077.

**Maintenance of Station Equipment - Various Expenses**

In a response to a Staff data request, the Company identified various expenses related to maintenance of station equipment that it would no longer seek recovery for through the rider. Therefore, Staff recommends reducing the rider by the total amount of the identified expenses, which is \$105,015.

## **Travel & Entertainment Expenses**

Staff removed \$7,389 in travel expenses that were related to conferences attended by Company employees. Staff finds that the conferences pertained to general utility concepts and did not have a strong focus on gridSMART related issues. Therefore, Staff determined that the expenses are inappropriate for inclusion in the rider.

Staff removed \$868 for flights booked to a conference occurring in 2019. Staff finds that not only is the conference outside of the audit period, it also did not have a strong focus on gridSMART related issues.

Staff excluded \$727 for meals served at lunch meetings. Although business was discussed at the meetings, Staff finds that the expenses are inappropriate to include in the rider since the employees involved were not on travel status. In a response to a Staff data request, the Company identified \$78 in meal expenses that it would no longer seek recovery for through the rider.

Staff recommends a total adjustment to travel and entertainment expenses of \$9,062.

## **Depreciation Rate for Communication Equipment**

During its investigation, Staff discovered an error with a depreciation rate used in the Company's over/under calculation. For Account 397 Communication Equipment, the Company used an annual depreciation rate of 3.85%. However, per the Stipulation in Case No. 16-1852-EL-SSO, for Account 397, the Company should have used an annual depreciation rate of 2.86%. Staff recommends that the Company adopt this correction and recalculate the depreciation expense so that the cumulative effective is reflected in the Company's next quarterly filing submitted to the Commission.

## **Reclassification of Servers**

Staff discovered that the Company has recorded in Account 391 Office Furniture and Equipment servers which are being used to support the computational requirements of the Company's gridSMART Phase 2 project. Staff finds that the servers should be recorded in a subaccount of Account 391 since computer hardware such as servers are depreciated at a rate that is different than the rate the Company applies to standard office furniture and equipment.<sup>1</sup> Staff recommends that a depreciation rate of 20% be used for the servers and that the Company reflect these changes in the next quarterly filing submitted to the Commission.

## **CONCLUSION**

Staff has completed its review of the filing and finds that the Company has appropriately included in its gridSMART rider only those costs, with the exceptions noted, that were incurred as a result of serving its retail customers in Ohio. Staff recommends that the Company reflect in its next quarterly filing the adjustments noted by Staff in this letter.

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<sup>1</sup> For Account 391 – Office Furniture and Equipment, the Company applies a depreciation rate of 3.33%, which is based on a 30-year useful life.