

THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE REVIEW OF THE
OPERATIONAL BENEFITS ASSESSMENT OF
THE GRIDSMART DEPLOYMENT OF OHIO
POWER COMPANY.

CASE NO. 18-1618-EL-RDR

FINDING AND ORDER

Entered in the Journal on November 21, 2019

I. SUMMARY

{¶ 1} The Commission adopts the joint stipulation and recommendation filed by the parties, resolving the issues related to the operational benefits assessment of Ohio Power Company d/b/a AEP Ohio's gridSMART deployment.

II. DISCUSSION

A. *Procedural Background*

{¶ 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 a first ESP, including the Company's proposal to establish a gridSMART Rider and initiate Phase 1 of its gridSMART program, which would focus on advanced metering infrastructure (AMI), distribution automation (DA), and home area

network initiatives. *In re Columbus Southern Power Co.*, Case No. 08-917-EL-SSO, et al., Opinion and Order (Mar. 18, 2009) at 37-38, Entry on Rehearing (July 23, 2009) at 18-24.

{¶ 5} On August 8, 2012, the Commission approved, with certain modifications, AEP Ohio's application for a second ESP, effective with the first billing cycle of September 2012 through May 31, 2015. Among other provisions of the ESP, the Commission approved AEP Ohio's request to continue the gridSMART Phase 1 project, as well as the gridSMART Phase 1 Rider, which enabled the Company to recover its prudently incurred costs associated with Phase 1 and was subject to an annual true-up and reconciliation. The Commission also directed AEP Ohio to file an application addressing Phase 2 of the gridSMART program. *In re Columbus Southern Power Co. and Ohio Power Co.*, Case No. 11-346-EL-SSO, et al. (*ESP 2 Case*), Opinion and Order (Aug. 8, 2012) at 62-63, Entry on Rehearing (Jan. 30, 2013) at 53.

{¶ 6} In Case No. 13-2385-EL-SSO, et al., the Commission approved, pursuant to R.C. 4928.143, AEP Ohio's application for a third ESP for the period of June 1, 2015, through May 31, 2018. Among other matters, the Commission approved AEP Ohio's proposal to extend the gridSMART program. The Commission also noted that, consistent with its directive in the *ESP 2 Case*, AEP Ohio should file, within 90 days after the expiration of ESP 2, an application for review and reconciliation of the gridSMART Phase 1 Rider. The Commission found that, after the review and reconciliation of the gridSMART Phase 1 costs, AEP Ohio should be authorized to transfer the approved capital cost balance into its distribution investment rider (DIR), which would not be subject to the DIR caps, and should also transfer any unrecovered operations and maintenance balance into the gridSMART Phase 2 Rider. *In re Ohio Power Co.*, Case No. 13-2385-EL-SSO, et al., Opinion and Order (Feb. 25, 2015) at 51-52.

{¶ 7} In Case No. 13-1939-EL-RDR, the Commission modified and approved a joint stipulation and recommendation (Phase 2 Stipulation) regarding AEP Ohio's application to

implement Phase 2 of its gridSMART project. The Phase 2 Stipulation provides that costs incurred for the gridSMART Phase 2 project will be recovered through a gridSMART Phase 2 Rider to be adjusted on a quarterly basis and subject to an annual audit for prudence. Pursuant to the Phase 2 Stipulation, Staff is authorized to retain an external consultant to review the Phase 1 and Phase 2 operational benefits of AEP Ohio's gridSMART project. The Phase 2 Stipulation provides that the consultant will evaluate and recommend an ongoing level of operational benefits to be achieved and recognized in rates, to the extent such operational savings are not already reflected in rates. *In re Ohio Power Co.*, Case No. 13-1939-EL-RDR, Opinion and Order (Feb. 1, 2017) at ¶¶ 33, 35.

{¶ 8} In Case No. 16-1852-EL-SSO, et al., the Commission modified and approved a stipulation and recommendation filed by AEP Ohio, Staff, and numerous other signatory parties, which authorized the Company to implement a fourth ESP for the period of June 1, 2018, through May 31, 2024, including continuation of the gridSMART Phase 2 Rider. *In re Ohio Power Co.*, Case No. 16-1852-EL-SSO, et al., Opinion and Order (Apr. 25, 2018) at ¶ 93.

{¶ 9} By Entry dated November 7, 2018, the Commission directed Staff to issue a request for proposal to acquire consulting services for the operational benefits assessment of AEP Ohio's gridSMART deployment for Phase 1 and Phase 2.

{¶ 10} On December 19, 2018, the Commission selected Daymark Energy Advisors (Daymark) to conduct the review and operational benefits assessment of AEP Ohio's gridSMART deployment.

{¶ 11} On February 22, 2019, the Ohio Consumers' Counsel (OCC) filed a motion to intervene in this case, which was granted on October 7, 2019.

{¶ 12} On April 12, 2019, Staff filed Daymark's report addressing the operational benefits assessment of AEP Ohio's gridSMART deployment.

{¶ 13} By Entry dated September 13, 2019, the attorney examiner issued a procedural schedule, with initial and reply comments due on October 15, 2019, and October 30, 2019, respectively.

{¶ 14} On October 2, 2019, AEP Ohio filed a joint stipulation and recommendation (Stipulation) signed by the Company, Staff, and OCC (Signatory Parties). The Stipulation states that it would resolve all of the issues in this proceeding.

{¶ 15} By Entry dated October 7, 2019, the attorney examiner directed that the filing deadlines for initial and reply comments be held in abeyance, pending the Commission's consideration of the Stipulation. Consistent with Ohio Adm.Code 4901-1-30(D), the attorney examiner also directed that testimony of at least one of the Signatory Parties that supports the Stipulation be filed no later than October 25, 2019.

{¶ 16} On October 25, 2019, AEP Ohio filed the testimony of Andrea E. Moore in support of the Stipulation, while OCC filed the testimony of James D. Williams in support of the Stipulation.

B. *Summary of the Audit Report*

{¶ 17} In its audit report, Daymark notes that it was retained to assist Staff in its evaluation and recommendation of the Phase 1 and Phase 2 operational benefits of AEP Ohio's gridSMART project to be achieved and recognized in rates, as required under the Commission-approved Phase 2 Stipulation. Daymark further notes that its audit consisted of four components: operational benefits, reliability and energy efficiency, non-financial metrics, and system integration assessment. Daymark adds that the audit focused on comparing actual to expected benefits based on available industry data and AEP Ohio's own data, which was analyzed to determine or confirm operational benefits or changes in operations that result in savings or efficiencies. (Audit Report at 2-3.)

{¶ 18} Among its recommendations, Daymark advises that operational benefit savings should be credited against the gridSMART Rider in the amount of \$6.8 million in 2019, \$9.1 million in 2020, and \$9.4 million in 2021 (or the conclusion of AEP Ohio's next base rate case). Daymark also provides its recommended operational benefit savings for each year from 2022 through 2031, ranging from \$11.6 million in 2022 to \$14.7 million in 2031, to be credited against the gridSMART Rider or a successor recovery mechanism approved by the Commission until such time that the savings are included in new base rates. Further, Daymark offers specific data tracking recommendations by operational benefit, which, if implemented, would provide the necessary data to measure and verify operational benefits in the future. Daymark also recommends a number of enhancements to the set of Phase 2 non-financial metrics that AEP Ohio tracks and reports to Staff on a monthly basis, which Daymark believes would improve the transparency of the Company's ongoing deployment progress, as well as the impact and value of AMI, distribution automation circuit reconfiguration (DACR), and volt VAR optimization (VVO). Finally, Daymark reports that, on a going-forward basis, AEP Ohio should shift its focus from the deployment of AMI, DACR, and VVO to further system integration and business process improvement, in order to position the Company to capture the full range of benefits derived from existing and future gridSMART technology investments. (Audit Report at 3-7.)

C. *Consideration of the Stipulation*

{¶ 19} Ohio Adm.Code 4901-1-30 authorizes parties to Commission proceedings to enter into a stipulation. Although not binding upon the Commission, the terms of such an agreement are accorded substantial weight. *Consumers' Counsel v. Pub. Util. Comm.*, 64 Ohio St.3d 123, 125, 592 N.E.2d 1370 (1992), citing *Akron v. Pub. Util. Comm.*, 55 Ohio St.2d 155, 157, 378 N.E.2d 480 (1978). This concept is particularly valid where the stipulation is unopposed by any party and resolves all issues presented in the proceeding in which it is offered.

{¶ 20} The standard of review for considering the reasonableness of a stipulation has been discussed in a number of prior Commission proceedings. *See, e.g., In re Cincinnati Gas & Elec. Co.*, Case No. 91-410-EL-AIR, Order on Remand (Apr. 14, 1994); *In re Western Reserve Telephone Co.*, Case No. 93-230-TP-ALT, Opinion and Order (Mar. 30, 1994); *In re Ohio Edison Co.*, Case No. 91-698-EL-FOR, et al., Opinion and Order (Dec. 30, 1993); *In re Cleveland Elec. Illum. Co.*, Case No. 88-170-EL-AIR, Opinion and Order (Jan. 31, 1989); *In re Restatement of Accounts and Records*, Case No. 84-1187-EL-UNC, Opinion and Order (Nov. 26, 1985). The ultimate issue for our consideration is whether the agreement, which embodies considerable time and effort by the signatory parties, is reasonable and should be adopted. In considering the reasonableness of a stipulation, the Commission has used the following criteria:

- (a) Is the settlement a product of serious bargaining among capable, knowledgeable parties?
- (b) Does the settlement, as a package, benefit ratepayers and the public interest?
- (c) Does the settlement package violate any important regulatory principle or practice?

{¶ 21} The Supreme Court of Ohio has endorsed the Commission's analysis using these criteria to resolve cases in a manner economical to ratepayers and public utilities. *Indus. Energy Consumers of Ohio Power Co. v. Pub. Util. Comm.*, 68 Ohio St.3d 559, 629 N.E.2d 423 (1994), citing *Consumers' Counsel* at 126. The Supreme Court of Ohio stated in that case that the Commission may place substantial weight on the terms of a stipulation, even though the stipulation does not bind the Commission.

{¶ 22} As previously noted, a Stipulation signed by all of the parties was filed on October 2, 2019. The following is a summary of the Stipulation and is not intended to supersede or replace the Stipulation:

- A. Subject to the terms of the settlement, the increased annualized level of operational savings credit to be applied against the gridSMART Rider will be \$1.858 million for July-December 2019 less any credits provided during that period at the time the new 2019 credit is implemented, \$8.230 million in 2020, and \$8.396 million in 2021. For all three years, these credit amounts will be allocated 60 percent to the residential customer class and 40 percent to commercial and industrial customer classes. This allocation reflects that the operational savings are associated with the number of AMI meters installed, which are largely attributable to the residential customer class. This allocation of operational savings credits does not modify the allocation of costs to customer classes established in the global settlement in Case No. 10-2929-EL-UNC, et al.
- B. The operational savings in Paragraph A do not reflect an offset for the estimated \$1.4 million for severances paid by the Company during the 2019-2020 time period, which shall be recovered in the gridSMART Phase 2 Rider (subject to financial and prudence audits).
- C. Effective on the first billing cycle after Commission approval of the settlement, the replacement 2019 credit level in Paragraph A will be prospectively implemented through the gridSMART Rider. If the Commission approves the settlement in time for at least one billing period remaining in 2019, the entire amount for 2019 will be flowed through in 2019; if the Commission does not approve the settlement by that time, the amount for 2019 will be added to the 2020 operational savings credit. The operational

savings credit will terminate subject to final reconciliation at the end of the billing period preceding the new rates becoming effective as a result of an application for increased rates under R.C. 4909.18 to be filed by June 2020 (EL-AIR case).

- D. The increased annualized credit levels in Paragraph A will replace, not supplement, the current operational savings credit of \$1.6 million per year.
- E. The annualized 2021 credit level in Paragraph A will remain in effect until new rates from the Company's EL-AIR case become effective, at which time the operational savings will be reflected in base rates.
- F. For 2019 and 2020, the revenues collected during the increased credit period will be reconciled to the annualized credit levels in Paragraph A. For 2021 and, if applicable, any subsequent years, the operational savings credit will be reconciled to the proportion of the annualized level for 2021 reached prior to termination (e.g., 25 percent of the 2021 level if terminated after March, 50 percent of the 2021 level if terminated after June, etc.). To the extent the new EL-AIR rates become effective after the end of 2021, the operational savings credit will, subject to final reconciliation, remain at the 2021 level until the new EL-AIR rates become effective.
- G. The annualized credit levels in Paragraph A reflect the savings identified by the auditor for credit and collections relating to the tariffed reconnection service charges. As such, the credit is being applied through the rider in lieu of lowering the reconnection

service charges. The reconnection charges will be addressed in the base distribution rate case to be filed in 2020, as provided in Case No. 13-1938-EL-WVR, et al.

- H. After Commission approval of the settlement, the Company will begin tracking the following data to improve the future measurement of benefits associated with the gridSMART project. The information will be reported annually, along with the existing non-financial metrics, through the deployment period for gridSMART Phase 2. For DACR-enabled circuits, the Company will track customer minutes of interruption (CMI) avoided, allocated to customer classes based on the general customer mix on that circuit.
- I. The Company agrees to extend the performance metric tracking and reporting obligation in Paragraph IV.2 of the Phase 2 Stipulation in Case No. 13-1939-EL-RDR through 2024.
- J. The Signatory Parties agree that the Stipulation satisfies the three-part test traditionally used by the Commission to consider stipulations.

(Stipulation at 3-5.)

{¶ 23} Upon review, the Commission finds that the Stipulation submitted by the Signatory Parties satisfies the three-part test used by the Commission in the consideration of stipulations. With respect to the first criterion, AEP Ohio witness Moore and OCC witness Williams agree that the Stipulation is the product of serious bargaining among capable and knowledgeable parties. Ms. Moore states that the Stipulation is the product of meetings and negotiations involving experienced counsel, as well as technical experts for

each party. Ms. Moore adds that all parties were invited to participate in settlement discussions regarding the Stipulation and participated in multiple meetings and communications to discuss resolution of the case. Similarly, Mr. Williams states that there were multiple settlement meetings and discussions with ample opportunity for parties to advocate for their interests. Mr. Williams also notes that the full inclusion of all intervening parties in these discussions encouraged the development of a settlement that represents a fair and equitable resolution of the issues for all parties. (Moore Testimony at 8; Williams Testimony at 6-7.)

{¶ 24} Ms. Moore and Mr. Williams also agree that the Stipulation, as a package, benefits customers and the public interest and, therefore, meets the second part of the three-part test. Ms. Moore states that the Stipulation provides for a reasonable resolution of the operational savings to be credited to customers for the gridSMART initiative and that there is a general benefit to customers and the public interest through the less costly settlement process, while the value to be credited to customers will be more promptly recognized due to the Stipulation. Ms. Moore also notes that AEP Ohio has agreed to report on the CMI related to DA, in order to improve future measurement of DACR technology. For his part, Mr. Williams emphasizes that the Stipulation results in an increase in the level of the operational savings credit from the current \$400,000 quarterly credit to approximately \$18.5 million between 2019 and 2021, with the credit to continue at the 2021 level until new base rates become effective. Mr. Williams also notes that, under the Stipulation, AEP Ohio will track the number of CMI that are avoided through DACR, as well as continue to track certain non-financial performance metrics through 2024, which will enable a more comprehensive evaluation of DACR circuit performance over a longer period of time. (Moore Testimony at 8; Williams Testimony at 8-11.)

{¶ 25} Finally, Ms. Moore and Mr. Williams agree that the Stipulation violates no important regulatory principle or practice. Ms. Moore states that the Stipulation is a settlement balancing customer interests and complying with the Commission's decision to

review the gridSMART operational savings. Ms. Moore opines that the Stipulation provides a reasonable settlement of the issues and recommendations in Daymark's audit report. (Moore Testimony at 8-9; Williams Testimony at 11.)

{¶ 26} Upon review, the Commission finds that the Stipulation is a reasonable resolution of the operational benefits assessment of AEP Ohio's gridSMART deployment and that the Stipulation, therefore, should be adopted in its entirety. We also find that no hearing is necessary in this proceeding.

III. ORDER

{¶ 27} It is, therefore,

{¶ 28} ORDERED, That the Stipulation filed by the parties be adopted and approved. It is, further,

{¶ 29} 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,

{¶ 30} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

COMMISSIONERS:

Approving:

Sam Randazzo, Chairman

M. Beth Trombold

Lawrence K. Friedeman

Daniel R. Conway

Dennis P. Deters

SJP/kck

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Summary: Finding & Order Finding and Order that the Commission adopts the joint stipulation and recommendation filed by the parties, resolving the issues related to the operational benefits assessment of Ohio Power Company d/b/a AEP Ohio's gridSMART deployment. electronically filed by Docketing Staff on behalf of Docketing