



# Public Utilities Commission

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December 31, 2019

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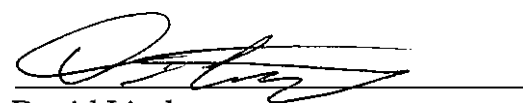
Docketing Division  
Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus OH 43215

RE: *In the Matter of the Application of Ohio Power Company to Update Its Enhanced Service Reliability Rider, Case No. 19-1747-EL-RDR*

Dear Docketing Division:

Enclosed please find the Staff Recommendation in the Matter of Ohio Power Company to Update Its Enhanced Service Reliability Rider, Case No. 19-1747-EL-RDR.

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

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

Enclosure

Cc: Parties of Record

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business.  
Technician DR Date Processed 12/30/19

**Ohio Power Company  
Case No. 19-1747-EL-RDR**

**SUMMARY**

On September 5, 2019, Ohio Power Company (Company) filed an application in Case No. 19-1747-EL-RDR (Application) to update its Enhanced Service Reliability Rider (ESRR) rates. The Application was filed to recover the operation and maintenance (O&M) and capitalization costs that the Company incurred in 2018 as part of its vegetation management program. The Company requested total recovery of \$13,605,071, which includes carrying charges and an over-recovery credit of \$8,907,531. The Company requested a rate of 2.09795% of base distribution revenue for its ESRR, a decrease of 1.38492% from the current rate of 3.48287%. A customer's monthly ESRR charge would be determined by multiplying the new rate of 2.09795% by the base distribution charges on the customer's monthly bill.

In Case Number 16-1852-EL-SSO (ESP IV), the Commission authorized the continuation of the ESRR while instituting a limit on annual recovery of \$27.6 million beginning in 2018.

**STAFF REVIEW**

Staff's annual review of the Company's ESRR program consists of four parts:

- 1) A financial audit that consists of a prudency review of the incurred costs, including O&M expenses and capitalized vegetation management costs, and to ensure the accuracy of the revenue requirement calculation.
- 2) A physical verification of the 2018 tree trimming activities.
- 3) A comparison of the Company's spending to the authorized amounts.
- 4) A review of any issues from other cases that may affect the vegetation management program.

**FINANCIAL AUDIT**

In its review, Staff examined the as-filed schedules for consistency with previous ESRR 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.

Staff makes no recommendations as a result of the financial audit.

## PHYSICAL VERIFICATION

Staff selected a sample of 46 circuits from the Company's six districts to physically verify that vegetation line clearance was performed as scheduled in 2018. Circuits were verified in and around the Columbus, Chillicothe, Athens, Canton, Newark, and Western Ohio Districts. All of the circuits audited showed evidence that vegetation line clearance work was conducted. Forty four of the 46 circuits reflected no vegetation concerns. Moderate re-growth was detected on one circuit, however, no vegetation was making contact with the electric conductors. Aggressive re-growth was found on the second circuit, where the vegetation is touching the conductor in a small portion of the circuit. Staff noted that the locations with moderate re-growth were trimmed approximately eleven to twenty-three months prior to the circuit being audited. The Company has been made aware of these locations and Staff has requested that the Company visit the sites to assess whether additional trimming is needed prior to the next scheduled clearing cycle in 2022.

## AUTHORIZED SPENDING

Rider ESSR is authorized to recover vegetation management expenditures incremental to the \$24.2 million vegetation management expenses included in base rates.<sup>1</sup> Rider ESSR is subject to an annual cap of \$27.6 million, which includes both capital and O&M expenditures. In its Application, the Company has determined the incremental spending in 2018 subject to the ESSR cap to be \$27,972,615,<sup>2</sup> which is \$372,615 in excess of the cap.

In conducting the audit, Staff determined that the Company's calculated incremental spending subject to the ESSR cap was, in part, based on expenditures accrued at the end of 2018 for which the actual expenses were not booked until early 2019. As a result, Staff found that the Company incongruously included \$29,561,135 of incremental O&M spending in the calculation.

Staff found a disparity in the incremental spending subject to the ESSR cap and the incremental spending included in the ESSR revenue requirement, which was the a result of differences between accrued expenditures and amounts actually spent. Staff concluded that the both the O&M and capital expenditures subject to the ESSR cap were based on amounts accrued at the end of 2018, but not recorded as an actual expense until early 2019. The O&M accruals were approximately \$1.2 million less than the actual O&M spending and the accruals for capital spending were \$282,582 more than actual spending. As a result of calculating incremental ESSR spending subject to the cap, Staff concluded

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<sup>1</sup> The amount recovered in base rates includes \$20,570,412 in O&M expenses and \$3,629,588 in capital expenditures.

<sup>2</sup> The Company calculated incremental O&M spending to be \$28,392,274 and incremental capital spending to be \$(419,659). The negative value for incremental capital spending means that the Company's capital spending in 2018 was less than the amount included in base rates.

that the Company understated the spending in excess of the cap by \$886,279 for a total of \$1,258,894 excess spending above the cap, as shown on Attachment A. Staff avers that the ESSR spending subject to the cap and the ESSR revenue requirement be calculated based on the same set of numbers. In other words, if the ESSR revenue requirement is based on actual spending, then the ESSR spending subject to the cap should also be based on actual spending. Therefore, Staff recommends that rider ESSR spending subject to the cap be based on actual expenditures. Staff's recommendation results in an adjusted 2018 ESSR revenue requirement of \$34,185,768 before consideration of over/under collections, which is \$917,119 less than the Company's proposed revenue requirement.

The Company excluded from the revenue requirement calculation the historical cumulative overspend through 2017 of \$30,537,123, which is inconsistent from previous ESSR revenue requirement calculations. Staff also recommends that the cumulative overspend, plus the 2018 overspend of \$11,070,783, be accounted for within the revenue requirement

## **CONCLUSION**

Staff recommends that the ESSR be approved subject to Staff's recommended adjustments, which would reduce the total revenue requirement from \$13,605,071 to a negative \$8,981,709 and would reduce the rate applied to the ratepayer's bill from 2.09795% to -1.38501%. Staff would further recommend that the Commission order the Company to work with Staff to update the 2018 rates subject to any Commission orders in Case Nos. 17-1914-EL-RDR and 18-1371-EL-RDR.

## 2018 Ohio Power Company ESR Rider True-Up

<b><u>Distribution Vegetation</u></b> <b><u>2018 Over/(Under) Recovery</u></b>	Base Vegetation Spend	2018 Actual Spending (accruals removed)	2018 Actual Spending (accruals included)	2018 Actual Incremental (accruals removed)	2018 Vegetation Revenue Requirement (accruals removed)
O&M	\$ 20,570,412	\$ 50,131,547	\$ 48,962,687	\$ 29,561,135	\$ 29,561,135
January	\$ 202,465	\$ 695,918	\$ 931,322	\$ 493,452	\$ 495,766
February	\$ 183,062	\$ 300,265	\$ 300,265	\$ 117,203	\$ 501,687
March	\$ 303,941	\$ 12,496	\$ 12,496	\$ (291,445)	\$ 503,094
April	\$ 394,869	\$ (22,205)	\$ (22,205)	\$ (417,074)	\$ 499,596
May	\$ 519,409	\$ 344,899	\$ 344,899	\$ (174,510)	\$ 494,592
June	\$ 303,813	\$ 132,730	\$ 132,730	\$ (171,083)	\$ 486,683
July	\$ 316,508	\$ (60,580)	\$ (60,580)	\$ (377,088)	\$ 484,654
August	\$ 323,400	\$ 611,571	\$ 611,571	\$ 288,171	\$ 480,183
September	\$ 242,534	\$ (121,062)	\$ (121,062)	\$ (363,596)	\$ 483,600
October	\$ 244,925	\$ 782,093	\$ 782,093	\$ 537,168	\$ 479,288
November	\$ 235,510	\$ 494,055	\$ 494,055	\$ 258,545	\$ 485,658
December	\$ 359,151	\$ (242,833)	\$ (195,656)	\$ (601,985)	\$ 488,724
Capital - 40 Year Life	\$ 3,629,588	\$ 2,927,347	\$ 3,209,929	\$ (702,241)	\$ 5,883,527
Total Base Spend	\$ 24,200,000				
Total 2018 Spend				\$ 28,858,894	
Cap per Case No.16-1852-EL-RDR (ESP 4)				\$ 27,600,000 (a)	
Excess				\$ (1,258,894)	\$ (1,258,894)
				2018 Revenue Requirement	\$ 34,185,768
				2018 ESR Rider Collections	\$ 45,256,551
				2018 Over/(Under) Recovery	\$ 11,070,783

<u>Distribution Vegetation</u> <u>2019 Incremental Investment</u>	Base Vegetation	Updated 2019	Charge	2019 Vegetation
	Spend	Vegetation Spend	Rate	Revenue Requirement
O&M	\$ 20,570,412	\$ 26,400,000	14.18%	\$ 26,400,000
Capital - 40 Year Life	<u>\$ 3,629,588</u>	<u>\$ 1,200,000</u>	15.02%	<u>\$ 85,080 (b)</u>
Total	\$ 24,200,000	\$ 27,600,000		\$ 26,485,080
		2009 Investment Carrying Costs		\$ 800,311
		2010 Investment Carrying Costs		\$ 1,134,793
		2011 Investment Carrying Costs		\$ 1,223,880
		2012 Investment Carrying Costs		\$ 788,463
		2013 Investment Carrying Costs		\$ 678,281
		2014 Investment Carrying Costs		\$ 468,296
		2015 Investment Carrying Costs		\$ 162,646
		2016 Investment Carrying Costs		\$ 485,586
		2017 Investment Carrying Costs		\$ 498,439
		2018 Investment Carrying Costs		\$ (99,578) (c)
		Prior Year Over/(Under) Recovery		\$ 30,537,123
		Over/(Under) Recovery (From Above)		<u>\$ 11,070,783</u>
		Total Revenue Requirement		\$ (8,981,709)
		Base Distribution Revenue		\$ 648,494,377
		2018 ESR Rider		-1.38501%
		Current ESR Rider		3.48287%
		Change in ESR Rider		-4.86788%

(a) Total Cap of \$27.6M per 4/25/2018 Opinion and Order in Case No.16-1852-EL-RDR (ESP 4, pg. 44)

(b) Annual carrying charge rate of 14.18% times updated 2019 capital spending times one-half year

(c) Annual carrying charge rate times 2018 actual capital spending