



# Public Utilities Commission

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December 22, 2022

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 gridSMART Phase 2 Rider rates*, Case No. 21-499-EL-RDR.

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations regarding the application filed by Ohio Power Company to update its gridSMART Phase 2 Rider rates in Case No. 21-499-EL-RDR.

A handwritten signature in black ink, appearing to be "DM", written in a cursive style.

Devin Mackey  
Supervisor, Grid Modernization & Retail Markets  
Public Utilities Commission of Ohio

Enclosure  
Cc: Parties of Record

**Ohio Power Company (AEP Ohio)**  
**Case No. 21-499-EL-RDR**  
**gridSMART Phase 2 Rider**

**SUMMARY**

On January 28, 2022, Ohio Power Company (“AEP Ohio” or “the Company”) filed an update to the gridSMART Phase 2 Rider in Case No. 21-499-EL-RDR for the fourth quarter of the 2021 calendar year. The Staff of the Public Utilities Commission of Ohio (“Staff”) used the data made available in this filing to conduct a financial audit of all costs incurred during the 2021 calendar year. As part of the audit, Staff reviewed revenues, operation and maintenance (O&M) expenses, and capital assets added throughout the calendar year and conducted field audits to confirm asset costs were associated with plant actually in service.

**CASE HISTORY**

In Case No. 08-917-EL-SSO, the Commission authorized the creation of the gridSMART Rider along with Phase 1 of the Company’s gridSMART project, which was designed as a three-year pilot program.<sup>1</sup> Then, in Case No. 11-346-EL-SSO, the Commission authorized the expansion of the gridSMART project, subject to approval of a separate “Phase 2” application, and the creation of a separate gridSMART Phase 2 Rider to track project costs. In the same case, the Commission approved the Company’s request to transfer the remaining capital costs associated with gridSMART Phase 1 for recovery through the Distribution Investment Rider (DIR), along with recovery of any unrecovered O&M expenses through the gridSMART Phase 2 Rider.<sup>2</sup>

In Case No. 13-1939-EL-RDR, the Commission approved a Stipulation and Recommendation (Stipulation) for the Company’s gridSMART Phase 2 program. The Phase 2 expansion included the deployment of Advanced Metering Infrastructure (AMI) for approximately 894,000 customers, Distribution Automation Circuit Reconfiguration (DACR) for approximately 250 circuits, and Volt/VAR Optimization (VVO) for 160 circuits, which was an increase from the Company’s originally proposed 80 circuits in the application.

To recover gridSMART Phase 2 costs through the gridSMART Phase 2 Rider, the Company was instructed to establish a docket for each calendar year and to file quarterly filings to reflect the costs incurred, which would be subject to automatic approval within 30 days, unless otherwise determined by the Commission. The same docket would be used for the annual physical and financial audits, which was established in Phase 1 and extended into Phase 2. The Company was also required to report annually on the non-financial metrics included as an attachment to the Stipulation for six years.<sup>3</sup>

Finally, the Stipulation established an operational savings credit to the gridSMART Phase 2 Rider to reflect the reduced O&M expenses and increased revenues associated with the implementation of the project components. The operational savings credit was initially set to \$400,000/quarter, but subject to formal evaluation by an external consultant.

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<sup>1</sup> Case No. 08-917-EL-SSO, March 18, 2009 Opinion and Order at 37-38 and the July 23, 2009 Opinion and Order at 18-24.

<sup>2</sup> Case No. 13-2385-EL-SSO, February 25, 2015 Opinion and Order at 51-52.

<sup>3</sup> Case No. 13-1939-EL-RDR, February 1, 2017 Opinion and Order.

That formal evaluation was conducted as part of a request for proposals issued in Case No. 18-1618-EL-RDR. The Commission ultimately approved a Stipulation and Recommendation in the case that established an increased level of operational savings credit. “Subject to the terms of the settlement, the increased annualized level of operational savings credit to be applied against the gridSMART Phase 2 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.” “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.” The Stipulation also expanded the data included as part of the non-financial metrics and extended the reporting obligation through 2024.<sup>4</sup> The operational savings credit ended in December 2021 when AEP implemented new base rates which were approved by the Commission in Case No. 20-585-EL-RDR.

## **STAFF REVIEW AND RECOMMENDATIONS**

This audit was based on annual 2021 data submitted by AEP Ohio in its quarterly gridSMART Phase 2 Rider. This quarterly filing was updated to include actual gridSMART Phase 2 O&M spending and capital carrying charges from October through December 2021. Also included in this Rider are the capital carrying charges associated with the additional 22,000 AMI meters from gridSMART Phase 1, in accordance with the Commission’s Order on February 1, 2017, in Case No. 13-1939-EL-RDR.

The revenue requirement reflects the updated operational savings credit authorized in Case No. 18-1618-EL-RDR, as discussed above. The filing also includes the updated non-financial metrics associated with the gridSMART Phase 2 project.

In its review, Staff examined the as-filed schedules for consistency with the Commission Orders that address the gridSMART Phase 2 Rider and to ensure proper accounting and regulatory treatment was applied. The audit consisted of a review of the application and its supporting work papers to confirm the prudence of expenses incurred during the review period and the mathematical accuracy of the schedules included in the application. Staff conducted this audit through a combination of field audits, document reviews, interviews, and interrogatories.

While performing its audit, Staff discovered out of period expenses that were charged to the gridSMART rider. Therefore, Staff recommends an adjustment to remove \$178.11 from the Company’s O&M expenses.

In addition, Staff found an expense associated with a cancelled work order that was charged to the gridSMART rider. Staff recommends an adjustment of \$965.00 to remove the amount from the Company’s O&M expenses.

Staff also discovered that a \$12.76 cost pertaining to transmission-related work had been incorrectly charged to the gridSMART rider. The work was performed by an employee of an outside contractor that completed both gridSMART and non-gridSMART-related work. Upon additional investigation by the Company, it was determined that subsequent transmission costs performed by the same employee had been inadvertently charged to the rider for the period April 2021 to March 2022 for the amounts of \$492.76 in O&M expenses and \$1,424.70 in capital carrying charges. Staff verified that the Company removed the \$492.76 amount from rider expenses (which included the original \$12.76 cost) in June 2022 and accepted the O&M adjustment. The Company made an additional adjustment to remove the

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<sup>4</sup> Case No. 18-1618-EL-RDR, November 21, 2019 Opinion and Order at 7-11.

\$1,424.70 in capital carrying charges in its Q3 2022 gridSMART filing. Staff found that the Company did not reflect the adjustment in the over under tab of its rider calculation spreadsheet. This would result in the adjustment being reversed out of the rider in the following quarter. After additional discussion with the Company, the Company stated that the revised adjustment will be reflected in the subsequent quarter's filing on the "Over Under Summary" tab. Upon verification of this correction in the Q4 2022 gridSMART filing, Staff will accept the Company's capital adjustment.

During its investigation, Staff discovered expenses related to incentive pay were linked to the financial performance of the Company, along with stock-based compensation and restricted stock.<sup>5</sup> Staff therefore recommends an adjustment to remove \$39,554 from O&M expenses. In addition, Staff recommends an adjustment to remove \$256,306 in capital costs related to employee financial incentives, stock-based compensation, restricted stock, or were not related to distribution service to customers, as derived from information provided in Data Requests 11, 19, and 26. Per the Stipulation in 20-585-EL-AIR, there will be no reduction for capitalized incentives after the implementation of new base rates, which occurred in December 2021, since the reduction is now reflected in base rates. Therefore, Staff's adjustment only removed eleven months' worth of capitalized incentives.

During its review, Staff discovered that the Company has been recovering AMI meters in the gridSMART rider that are outside of the scope approved by the Commission. As stated above, the Commission approved in Case No. 13-1939-EL-RDR the recovery of approximately 894,000 additional AMI meters through the gridSMART Phase 2 program. As of 11/2021, AEP had already booked over 929,000 AMI meters as part of the Phase 2 program. However, as of 11/2021, AEP was recovering an additional 97,192 AMI meters which were not tagged to any gridSMART program in this rider. Staff finds that these additional meters are not appropriate to be recovered in the gridSMART rider and are more appropriate to be recovered in the DIR rider, since the gridSMART rider was approved to only recover assets specific to that program. Therefore, Staff recommends that \$4,900,324 in non-Grid Smart AMI meters and associated expenses added during the test year should be disallowed from the gridSMART rider.

The communitive impact of Staff's adjustments on the 2021 gridSMART Phase 2 Rider calculates to a revenue requirement reduction of \$1,047,723.

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<sup>5</sup> Financial incentives include, but may not be limited to: performance awards, restricted stock units, executive incentives, earnings per share, shareholder returns, stock purchases, company earnings, and/or any other financially motivated incentives ties to the company's bottom line and/or meeting shareholder interests.

**This foregoing document was electronically filed with the Public Utilities  
Commission of Ohio Docketing Information System on  
12/22/2022 2:05:40 PM**

**in**

**Case No(s). 21-0499-EL-RDR**

Summary: Staff Review and Recommendation of the 2021 AEP gridSMART Phase  
2 Rider filings electronically filed by Mr. Devin C. Mackey on behalf of PUCO Staff