



SUBJECT: AEP East Operating Companies' and East Transmission Companies' 2017 Formula Rate True-Up Response to Joint Interveners Group Preliminary Challenge.

- The original Preliminary Challenge provided by the Joint Interveners group is included in this file.
- Attachments referenced in these responses will be provided based on an emailed request. Requests for attachments deemed confidential will require execution of a non-disclosure agreement prior to being provided.
- Requests can be sent to:

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February 5, 2019

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Dear Mr. Norton:

Pursuant to the Formula Rate Implementation Protocols for the AEP East Operating Companies and the AEP Transmission Companies in the AEP Zone (Attachments H-14A and H-20A, respectively, to the PJM Open Access Transmission Tariff), American Electric Power Service Corporation (“AEP”) provides this response to the Joint Intervenor (“JI”) Group’s¹ January 4, 2019 letter notifying AEP of Preliminary Challenges to certain components of (i) the AEP East Operating Companies’ Formula Rate Annual Update True-up for 2017, which was filed with the Federal Energy Regulatory Commission (“FERC”) on May 25, 2018 in Docket No. ER17-405-000 (“2017 OpCo True-up”), and (ii) the AEP East Transmission Companies’ Formula Rate Annual True-up for 2017, which was filed with FERC on May 25, 2018 in Docket No. ER17-406-000 (“2017 Transco True-up”). For ease of reference, below AEP restates each issue identified in your January 4, 2019 letter followed by AEP’s response.

PRELIMINARY CHALLENGE JI-2017-1 (Radial Lines in 2017 OpCo Update)

Joint Intervenor Group Statement

The 2017 OpCo Update includes radial taps and lines in the Company's transmission formula rates. AEP responded to JI 1-34 with an attachment which

¹ Joint Intervenor are: American Municipal Power, Inc.; Blue Ridge Power Agency; Craig Botetourt Electric Cooperative; Indiana Michigan Municipal Distributors Association; Indiana Municipal Power Agency; and Wabash Valley Power Association.

reflects that the OpCo Systems have radial tap lines which total 1,049.77 miles (length net of customer miles of 1,036.84 miles) serving 463 stations. When requested in JI 2-239 to provide the gross plant investment, accumulated depreciation and depreciation expense for each of the facilities listed in the AEP response to JI 1-34, AEP responded that the information could not be provided in the format requested. AEP in its responses have stated the Company does have radial facilities and that the Company knows that there are 1,036.84 miles of radial lines net of customer miles but does not have the information in the format requested. AEP has not offered to provide the data relating to the gross investment, accumulated depreciation and the current year depreciation expense related to these radial facilities in an alternate format. AEP has also failed to provide supporting evidence why these radial facilities should be included in the transmission formula rates for the OpCo's.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of these radial facilities (net investment and depreciation expense) that should be removed from the transmission formula rates in the 2017 OpCo Update.

AEP's Response:

The Company is providing the requested gross investment, accumulated depreciation and the current year depreciation expense for the 138kV facilities. Please see Attachment JI-2017 #1. The Company does not maintain individual records of gross plant investment or accumulated depreciation for transmission facilities 69kV and below. These facilities are grouped together with other non-radial facilities for reporting purposes, consistent with the reporting in the Company's FERC Form 1.

Transmission radial facilities accomplish a number of transmission functions on the grid including, but not limited to, providing transmission level service to customers, providing transmission level service to municipalities and cooperatives and providing transmission service to distribution stations. The PJM tariff defines the Transmission System as "facilities controlled or operated by the Transmission Provider within the PJM Region that are used to provide transmission service under Tariff, Part II and Part III." Therefore, these facilities are appropriate to recover in the formula rate.

**PRELIMINARY CHALLENGE JI-2017-2
(Telecommunications in Transmission Plant in 2017 ApCo Update)**

Joint Intervenors Group Statement:

APCo has included the "Belle 46KV Substation: APCo:3205 - Remote Terminal Units (RTUs)" in transmission plant per AEP's response to JI 2-244. This represents an upgrade in the RTU for newer telecommunications technology at the Belle Station to replace analog leased lines, frame relate circuits (obsolete digital

leased line), and tone telemetry installations (obsolete 2-point system alarms). Based on the FERC System of Accounts, all communication equipment should be reflected in FERC Account 397 (Communication Equipment). AEP has not provided support for its deviation from recording this communication equipment upgrade to transmission plant rather than to Account 397. Joint Intervenors believe that this communication equipment upgrade should not be classified as transmission plant and should be reclassified to FERC Account 397. For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of this communication equipment in transmission plant in the 2017 ApCo Update.

AEP Response:

The telecommunications equipment as noted in the response to JI 2-244 is specifically intended for instantaneous monitoring of the Transmission System. Because this equipment is specific to the operation of transmission stations, the Company asserts that these items were properly included in plant Account 353. A review of item 6 of the General Instructions of the FERC Uniform System of Accounts (“USoA”) shows that the list of items included for each account shown in the USoA is not intended to be exhaustive. Item 6 provides as follows (emphasis added):

Lists of *items* appearing in the texts of the accounts or elsewhere herein are for the purpose of more clearly indicating the application of the prescribed accounting. **The lists are intended to be representative, but not exhaustive.** The appearance of an item in a list warrants the inclusion of the item in the account mentioned only when the text of the account also indicates inclusion inasmuch as the same item frequently appears in more than one list. The proper entry in each instance must be determined by the texts of the accounts.

Further, description of plant Account 353 is as follows:

This account shall include the cost installed of transforming, conversion, and switching equipment used for the purpose of changing the characteristics of electricity in connection with its transmission or for controlling transmission circuits.

A review of the description of the plant account in question shows that these station equipment investments are properly recorded.

**PRELIMINARY CHALLENGE JI-2017-3
(Charleston Area Improvements Project included in Transmission Plant in 2017 ApCo Update)**

Joint Intervenors Group Statement:

APCo has included the Charleston Area Improvements Project as being transmission related. The description of this project provided in AEP's response to JI 2-247 states that "The Charleston Area Improvements Project will ensure reliable electric service in the downtown Charleston area and provide sufficient capacity for future growth in and around downtown area."

APCo has not provided any support that this 46kV line qualifies as a transmission line that should be recovered under the transmission formula rate .. Based on the information provided to date by AEP, Joint Intervenors believe that the Chemical - Washington Street 46kV project is a distribution line serving the downtown Charleston area and, therefore, should be reclassified as distribution plant and excluded from the transmission formula rate.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of the Charleston Area Improvements Project in transmission plant in the 2017 ApCo Update.

AEP Response:

As stated in the Company's response to JI-2-247, thermal violations have been identified in this area, and this transmission project will provide increased long-term capacity and improved operational flexibility. Moreover, the line in question is interconnected between transmission sources; therefore, it is part of the transmission network and is considered a transmission facility.

Additionally, voltage level does not define whether a line is transmission or distribution. 46 kV is a common voltage class utilized in the sub-transmission network throughout the APCo region. Sub-Transmission Facilities, defined in more detail in Part 4 of the FERC Form 715 document, are transmission lines rated below 100 kV and transformers with secondary voltages below 100 kV.

Please see the following attachment for more information:
https://aep.com/assets/docs/requiredpostings/TransmissionStudies/docs/2018/4%20AEP_East%20FERC%20715_2018_Final_Part%204.pdf

**PRELIMINARY CHALLENGE JI-2017-4
(Research and Development and EPRI Membership Dues Improperly Included
in Account 566 in 2017 IMCo Update)**

Joint Intervenors Group Statement:

According to AEP's response to JI 2-262, Attachment 1, Tab "ABM Desc," Row 98, IMCo has included "Conduct Research & Development" in Account 566 - Miscellaneous Transmission Expenses. AEP described this item as "This activity includes all tasks associated with planning, supervising, designing, performing and evaluating both basic and applied research projects. This activity involves collecting, analyzing, and evaluating information on all aspects of the research from study design through dissemination of results. This activity also includes all costs associated with membership in support of EPRI, including funding of EPRI sponsored research and development projects being conducted at AEP or elsewhere." This activity does not include, market research efforts, which are captured under the process groups "Develop Business" and "Provide Customer Service." These research and development expenses and the expenses in support of EPRI membership should have been recorded in Account 930.1. Per the Uniform System of Accounts, Account 930.1 shall include "Industry association dues for company memberships" and "research, development, and demonstration expenses not charged to other operation and maintenance expense accounts on a functional basis." Based on AEP's description, these research and development expenses appear to be general in nature. Note L of the formula rate template states: "Expenses recorded in FERC Accounts 928 (Regulatory Commission Expense), 930.1 (Safety Related Advertising) and 930.2 (Miscellaneous General Expenses) that are not directly related to or properly allocable to transmission service will be removed from the TCOS. If AEP includes any expenses booked to these accounts in future A TRR updates, AEP must provide supporting information demonstrating that the underlying activities are directly related to providing transmission service. Account 930.2 includes the expenses incurred by the transmission function for Associated Business Development revenues given as a credit to the TCOS on Worksheet E. AEP has not provided supporting information demonstrating that the research and development expenses are directly related to the provision of transmission service.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of these research and development expenses in Account 566 in the 2017 IMCo Update. In addition, to the extent AEP has included similar expenses in any other OpCo or Transco, Joint Intervenors hereby state a Preliminary Challenge for the reasons mentioned herein.

AEP's Response:

The Company responds that the amounts in question have been properly accounted for and are appropriate for recovery in the formula. The charges described in the preliminary challenge total \$242,964.42. As shown in Attachment JI-2017

Preliminary Challenge #4 to this response, this amount is made up of the allocated portion of R&D projects that are specific to the transmission function. As shown in the following description of Account 566 taken from the FERC's Uniform System of Accounts, R&D items specific to the transmission function are recordable therein. Further, the Company notes that the definition of Account 930.1 quoted in the preliminary challenge itself indicates that the account will only include those "research, development, and demonstration expenses *not charged to other operation and maintenance expense accounts on a functional basis.*" The allocation of these charges applies to all AEP Transmission affiliates. See Attachment JI-2017 #4 for the detail of the R&D projects making up these charges.

Following is an excerpt from the description of Account 566 (emphasis added):

566 Miscellaneous transmission expenses (Major only).

This account shall include the cost of labor, materials used and expenses incurred in transmission map and record work, transmission office expenses, and other transmission expenses not provided for elsewhere.

Items

Labor:

1. General records of physical characteristics of lines and stations, such as capacities, etc.
2. Ground resistance records.
3. Janitor work at transmission office buildings, including care of grounds, snow removal, cutting grass, etc.
4. Joint pole maps and records.
5. Line load and voltage records.
6. Preparing maps and prints.
7. General clerical and stenographic work.
8. Miscellaneous labor.

Materials and Expenses:

9. Communication service.
10. Building service supplies.

11. Map and record supplies.
12. Transmission office supplies and expenses, printing and stationery.
13. First-aid supplies.
- 14. *Research, development, and demonstration expenses.***

**PRELIMINARY CHALLENGE JI-2017-5
(Transmission Planning Studies Improperly Included in Account 566 in 2017
IMCo Update)**

Joint Intervenors Group Statement:

According to AEP's response to JI 2-262, Attachment I, Tab "ABM Desc," Row 220, IMCo has included "Perform Transmission Planning Studies" in Account 566 - Miscellaneous Transmission Expenses. The Joint Intervenors believe that these expenses are more appropriately included in Account 561.6 - Transmission Service Studies. Although the reclassification of these expenses does not have an effect on the formula rate template, it was unclear to the Joint Intervenors whether IMCo has included any offsetting reimbursements received by IMCo for these studies in the formula rate.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge in the event IMCo has not included offsetting reimbursements related to these transmission planning study expenses in the 2017 IMCo Update. In addition, to the extent AEP has included similar expenses in any other OpCo or Transco, Joint Intervenors hereby state a Preliminary Challenge for the reasons mentioned herein.

AEP's Response:

AEP performs interconnection studies for its own benefit at its own direction, or for the benefit of customers or Independent Power Producers at their request. In the case of the former, studies are recorded as transmission O&M expenses, as was the case for the expenses referenced in this challenge. However, if done as part of a customer request for interconnection, the costs and related reimbursements for these studies are recorded in a 186 clearing account as opposed to as operating expenses or revenues. Therefore, no reimbursements would be shown in the cost of service, since balances in Account 186 are not included in the formula.

**PRELIMINARY CHALLENGE JI-2017-6
(Non-Rate Case Filings Included in Account 566 in 2017 IMCo Update)**

Joint Intervenors Group Statement

According to AEP's response to JI 2-262, Attachment I, Tab "ABM Desc," Row 106, IMCo has included "Prepare Other Non-Rate Case Filings" in Account 566

- Miscellaneous Transmission Expenses. AEP describes these expenses as "This activity includes preparation of filings that are not base-rate or fuel related. Examples include PIP riders/surcharges, boundary changes, affiliated transactions, energy conservation surcharges and emissions recovery riders. The efforts involved in research, testimony, preparation and distribution of materials that contribute to these filings are included in the activity."

The Joint Intervenors believe that these non-rate case filings are more appropriately recorded to FERC Account 928 - Regulatory Commission Expenses and not Account 566. Account 928 not only includes formal cases before regulatory commissions, but according to the Uniform System of Accounts, also includes cases before " ... other regulatory bodies, or cases in which such a body is a party, including payments made to a regulatory commission for fees assessed against the utility for pay and expenses of such commission, its officers, agents, and employees, and also including payments made to the United States for the administration of the Federal Power Act." The examples of the filings mentioned by AEP are the types of cases that should be recorded in Account 928. Furthermore, AEP has not demonstrated that these expenses were transmission related.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of the expenses to "Prepare Other Non-Rate Case Filings" in Account 566 - Miscellaneous Transmission Expenses instead of properly recording them to Account 928 - Regulatory Commission Expenses. Joint Intervenors also object to allocating any of these expenses after reclassifying them to Account 928 in the 2017 IMCo Update until AEP can provide further documentation that they are transmission related in accordance with Note L of the template which states: "Expenses recorded in FERC Accounts 928 (Regulatory Commission Expense), 930.1 (Safety Related Advertising) and 930.2 (Miscellaneous General Expenses) that are not directly related to or properly allocable to transmission service will be removed from the TCOS. If AEP includes any expenses booked to these accounts in future ATRR updates, AEP must provide supporting information demonstrating that the underlying activities are directly related to providing transmission service. Account 930.2 includes the expenses incurred by the transmission function for Associated Business Development revenues given as a credit to the TCOS on Worksheet E." In addition, to the extent AEP has included similar expenses in any other OpCo or Transco, Joint Intervenors hereby state a Preliminary Challenge for the reasons mentioned herein.

AEP's Response:

Because the Company is allowed to recover 100% transmission-related charges recorded in either Account 928 or Account 566, the Company does not feel a reclassification is necessary, and does not propose to make one. However, for purposes of transparency, subsequent to 2017, the Company expanded the subaccounts included under the Account 928 to capture transmission specific

regulatory activity. In addition, the descriptions of ABMS code 286 are intended to provide examples of activities to be captured therein, but is not an all-inclusive list. The Company uses this code to capture time charged to other regulatory activities that are not related to rate cases. For instance, the work performed by the FERC regulatory department on this response will be charged to an appropriate Account 928 and ABMS 286, because this activity is part of maintaining the AEP East Transmission formula rates. Because these expenses are allocated from the AEP Service Corporation, the basis of allocations means all transmission affiliates will receive a pro-rata portion of this charge based on total assets.

**PRELIMINARY CHALLENGE JI-2017-7
(Prepare Rate Case Filings Included in Account 566 in 2017 IMCo Update)**

Joint Intervenors Group Statement:

According to AEP's response to JI 2-262, Attachment 1, Tab "ABM Desc," Row 100, IMCo has included "Prepare Rate Case Filings" in Account 566 - Miscellaneous Transmission Expenses. AEP describes these expenses as "This activity includes tasks performed in the production and distribution of specific rate case filings. Preparation of exhibits, testimony documents and the distribution of these documents are included in this activity. Coordination with the contributing corporate departments is required. Regulatory requirements directly influence the level of effort in these tasks. The activity also includes development of sales, revenue, expense and other rate case forecasts, as well as rebuttals, briefs and re-submissions. Preparation of fuel filings is excluded in this activity and is covered separately in activity Prepare Fuel Filings."

The Joint Intervenors believe that these rate case filings are more appropriately recorded to FERC Account 928 - Regulatory Commission Expenses and not Account 566. Account 928 includes formal cases before regulatory commissions and, according to the Uniform System of Accounts, includes " ... all expenses (except pay of regular employees only incidentally engaged in such work) properly includible in utility operating expenses, incurred by the utility in connection with formal cases before regulatory commissions, or other regulatory bodies, or cases in which such a body is a party, including payments made to a regulatory commission for fees assessed against the utility for pay and expenses of such commission, its officers, agents, and employees, and also including payments made to the United States for the administration of the Federal Power Act." The examples of the filings referenced by AEP for support are rate cases that should be recorded in Account 928. Furthermore, AEP has indicated that these expenses are related to production and distribution and therefore should be excluded from the transmission formula rate template in accordance with Note L of the template, which states: "Expenses recorded in FERC Accounts 928 (Regulatory Commission Expense), 930.1 (Safety Related Advertising) and 930.2 (Miscellaneous General Expenses) that are not directly related to or properly allocable to transmission service will be removed from the TCOS. If

AEP includes any expenses booked to these accounts in future ATRR updates, AEP must provide supporting information demonstrating that the underlying activities are directly related to providing transmission service. Account 930.2 includes the expenses incurred by the transmission function for Associated Business Development revenues given as a credit to the TCOS on Worksheet E."

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of the expenses to "Prepare Rate Case Filings" in Account 566 - Miscellaneous Transmission Expenses instead of properly recording them to Account 928 - Regulatory Commission Expenses. Joint Intervenors also object to allocating any of these expenses after reclassifying them to Account 928 in the 2017 IMCo Update since they are not transmission related. In addition, to the extent AEP has included similar expenses in any other OpCo or Transco, Joint Intervenors hereby state a Preliminary Challenge for the reasons mentioned herein.

AEP's Response:

Because the Company is allowed to recover 100% transmission-related charges recorded in either Account 928 or Account 566, the Company does not feel a reclassification is necessary, and does not propose to make one. However, for purposes of transparency, subsequent to 2017, the Company expanded the subaccounts included under the Account 928 to capture transmission specific regulatory activity. In addition, the descriptions of ABMS code 281 are intended to provide examples of activities to be captured therein, but is not an all-inclusive list. The Company uses this code to capture time charged to preparation or support of formal rate cases. Because these expenses are allocated from the AEP Service Corporation, the basis of allocations means all transmission affiliates will receive a pro-rata portion of this charge based on total assets.

**PRELIMINARY CHALLENGE JI-2017-8
(Rockport U2 Lease Litigation Improperly Included in Account 923 in 2017
IMCo Update)**

Joint Intervenors Group Statement

According to AEP's response to JI 2-263 and 2-264, AEP has included approximately \$586,000 and \$510,000, respectively, of "Litigation - General" expenses described as related to Rockport U2 Lease in Account 923 - Outside Services Employed. Uniform System of Accounts, Account 923 states: "This account shall include the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts." The Rockport U2 Lease appears to be related to production plant. This litigation related to the operation and maintenance of the Rockport U2 Lease should be recorded in FERC Account 507 - Rents.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge

with respect to the inclusion of these Rockport U2 lease litigation expenses related to the production function in the 2017 IMCo Update.

AEP's Response:

One of the basic underlying tenants of a formula rate is that expenses in certain accounts, including Account 923, are to be recovered on an allocated basis, rather than directly passing through the costs. AEP applies a wage and salary allocator to such administrative and general ("A&G") expense accounts to determine a reasonable level of A&G expense that should be reflected in the wholesale transmission rates. This is consistent with longstanding Commission precedent in support of using a wage and salary allocator for such expenses² and was accepted by the Commission for this transmission formula in Docket No. ER08-1329.

The same wage and salary allocator would be applied regardless of whether an individual A&G expense amount appears "transmission-related", "distribution-related", or "generation-related," as the case may be. The result is that the transmission allocator will pick up a portion of some A&G expenses that appear to be generation-related. However, the reverse is also true: A&G expenses that appear to be transmission-related will not be 100% assigned to transmission. Because of the manner in which the allocator is designed to work and the appropriate recording of a wide variety of costs in the A&G accounts, it would be inappropriate to single out and exclude from the transmission formula rate certain expenses that appear to be more generation-related while only a portion of those A&G expenses that are transmission-related are included in the transmission formula rate.

In this case, AEP properly recorded the outside counsel expenses in Account 923, and those expenses were appropriately allocated pursuant to Commission policy.

**PRELIMINARY CHALLENGE JI-2017-9
(Transmission Revenue Not Included in 2017 KPCo Update)**

Joint Intervenors Group Statement:

Joint Intervenors require further clarification regarding AEP's response to JI's question in JI 2-267. Specifically, please provide a description of the nature of the line item included in AEP's response to JI 1-107 Attachment 1, Excel row 159, Account 454001, Account Description "Rent From Elect Property - Af," with Line Description "Transmission Operations Center." It appears that these revenues have not been included in the transmission formula rate as revenue credits. To the extent these rent revenues are indeed related to the transmission function, such revenues should have been included in the formula rate.

² See, e.g., *Southern California Edison Co.*, 92 FERC ¶ 61,070 at 61,268 (2000).

For the foregoing reason, Joint Intervenors hereby reserve the right to state a Preliminary Challenge related to the exclusion of rent from electric property related to the Transmission Operations Center as transmission revenue credits in the formula rate in the 2017 KPCo Update.

AEP's Response:

AEP asserts that the KPCo Transmission formula was properly credited with the appropriate revenue credit for affiliated rents received in 2017. In the expanded detail from JI-107 Attachment 1 referenced in the Joint Intervenors' question above, the totals for Excel Column L, rows 170 and 177 sum to the value of the transmission revenue credit shown in Worksheet E, line 3 of the KPCo formula rate update. A revenue credit for the Transmission Operations Center is not appropriate for KPCo because that asset is recorded on Ohio Power's books. The revenue credit including the Transmission Operations Center is included on Worksheet E in the Ohio Power formula. The functional revenue credit shown therein, \$9,991,193, is the sum of Excel Column J, Rows 170, 177 and 182.

**PRELIMINARY CHALLENGE JI-2017-10
(Research and Develop. Clearing Improperly Included in Account 566 in 2017
Ohio Power Company Update)**

Joint Intervenors Group Statement:

According to AEP's response to JI 2-271, Attachment 2, Tab "Detail line items," Column "Descr," Ohio Power Company has included approximately \$451,000 of expenses for "Conduct Research & Development" in Account 566 - Miscellaneous Transmission Expenses, which was directly allocated from AEP's Service Company. AEP has failed to provide a description of each item to determine whether they are appropriately related to Ohio Power Company's transmission function. Without a description of these expenses, it appears that these research and development expenses should have been recorded in Account 930.1. The Uniform System of Accounts Account 930.1 shall include "Industry association dues for company memberships" and "research, development, and demonstration expenses not charged to other operation and maintenance expense accounts on a functional basis." Based on AEP's lack of a description of these research and development expenses, JIs assume they are general in nature. Note L of the formula rate template states: "Expenses recorded in FERC Accounts 928 (Regulatory Commission Expense), 930.1 (Safety Related Advertising) and 930.2 (Miscellaneous General Expenses) that are not directly related to or properly allocable to transmission service will be removed from the TCOS. If AEP includes any expenses booked to these accounts in future A TRR updates, AEP must provide supporting information demonstrating that the underlying activities are directly related to providing transmission service. Account 930.2 includes the expenses incurred by the transmission function for Associated Business

Development revenues given as a credit to the TCOS on Worksheet E." AEP has not provided supporting information demonstrating that the research and development expenses are directly related to the transmission service and were properly allocated from AEP's Service Company.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of these research and development expenses in Account 566 in the 2017 Ohio Power Company Update. In addition, to the extent AEP has included similar expenses in any other OpCo or Transco, Joint Intervenors hereby state a Preliminary Challenge for the reasons mentioned herein.

AEP's Response:

Consistent with the response provided with respect to Preliminary Challenge **JI-2017-4**, the Company responds that the amounts in question have been properly accounted for and are appropriate for recovery in the formula. The charges described in the preliminary challenge total \$450,864.42. As shown in the attached table, this amount is made up of the allocated portion of R&D projects that are specific to the transmission function. As further shown in the description of Account 566 provided in response to Preliminary Challenge **JI-2017-4**, R&D items specific to the transmission function are recordable therein. Further, the Company again notes that the definition of Account 930.1 quoted in preliminary challenge itself indicates that the account will only include those "research, development, and demonstration expenses not charged to other operation and maintenance expense accounts on a functional basis." Because these are AEP Service Corporation allocated charges, these charges are applied pro-rata to all AEP Transmission affiliates based on total assets. See Attachment JI-2017 #10- for the detail of the R&D projects making up these charges.

**PRELIMINARY CHALLENGE JI-2017-11
(Distribution Expenses Improperly Included in Account 923 in 2017 Ohio Power Company Update)**

Joint Intervenors Group Statement:

According to AEP's response to JI 2-272, Attachment I, "Summary" Tab, AEP has included approximately \$742,000 of AMI Meter, SmartGrid and OPCO Distribution related expenses in Account 923 - Outside Services Employed. Uniform System of Accounts, Account 923 states: "This account shall include the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts." These expenses appear to be related to the distribution function. The consulting expenses related to distribution should be recorded to their associated distribution FERC accounts.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of the following expenses included in Account 923 unless AEP can provide supporting documentation that these are general in nature and not related to a specific function in the 2017 Ohio Power Company Update.

| | |
|---|--------------|
| 1 . AMIMETERS AMI Meter Phase II | \$518,269.00 |
| 2. AMIPRJMGMT AMI PM Labor | \$19,800.00 |
| 3. DATAREPRT Smart Grid Data Reporting 1 | \$61,331.25 |
| 4. EDNI 03177 General - OPCO Distribution | \$ 239.98 |
| 5. EDNANDA General - OPCO Distribution | \$ 930.00 |
| 6. PHS2STUDY Phase 2 Feasibility Study | \$ 32,876.54 |
| 7. PHS3STUDY Phase 3 Feasibility Study | \$90,671.79 |
| 8. SG2COLLAB Smart Grid PH2 Collaborative | \$18,123.50 |

AEP's Response:

These expenses were for outside consultants utilized for an AEP Ohio project and have been properly recorded in Account 923. As noted in response to Preliminary Challenge JI-2017-8, AEP applies a wage and salary allocator to the expenses in such A&G accounts to appropriately allocate a portion to transmission.

**PRELIMINARY CHALLENGE JI-2017-12
(Interest and Financing Expenses Improperly Included in Account 923 in 2017
IMTCO Update)**

Joint Intervenors Group Statement:

According to AEP's response to JI 2-288, Attachment 1, "Work Order Description" Column, AEP has included "Interest and financing costs associated with working capital and short-term borrowings or investments" related expenses in Account 923 - Outside Services Employed. Uniform System of Accounts, Account 431 states: "This account shall include all interest charges not provided for elsewhere." All interest and financing costs associated with working capital, short-term borrowings or investments should be recorded in FERC Account 431.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of these interest and financing expenses included in Account 923 in the 2017 IMTCO Update. In addition, to the extent AEP has included similar expenses in any other OpCo or Transco, Joint Intervenors hereby state a Preliminary Challenge for the reasons mentioned herein.

AEP's Response:

The approximate \$1,350 amount included in Account 923 for IMTCo that used the work order in question represented expenses and fees related to Letters of Credit (LC). These expenses and fees were actually incurred by AEPSC and allocated to all AEP affiliates, based on the approved allocation factor of AEPSC "Past Three Months' Bill Dollars". The charges related to standby LC fees, courier and amendment fees and margin add-on fees. These are costs associated with AEPSC LCs not IMTCo; therefore, the expenses are properly classified as outside services provided by AEPSC, not interest.

January 4, 2019

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VIA E-MAIL TO arconner@aep.com

**RE: Preliminary Challenges to 2017 Annual Transmission Formula Rate True-up:
AEP East Operating Companies and AEP Transmission Companies In the AEP Zone**

Dear Ms. Conner:

Pursuant to the Formula Rate Implementation Protocols for the AEP East Operating Companies and the AEP Transmission Companies in the AEP Zone (Attachments H-14A and H-20A, respectively, to the PJM Open Access Transmission Tariff), the Joint Intervenors Group¹ hereby notifies American Electric Power Service Corp. (“AEP”) of Preliminary Challenges to certain components of (i) the AEP East Operating Companies’ Annual Transmission Formula Rate True-up for 2017, which was filed with the Federal Energy Regulatory Commission (“FERC”) on May 25, 2018 in Docket No. ER17-405-000 (“2017 OpCo Update”), and (ii) the AEP East Transmission Companies’ Formula Rate Annual Update for 2016, which was filed with FERC on May 25, 2018 in Docket No. ER17-406-000 (“2017 Transco Update”).

The items that are the subject of Joint Intervenors’ Preliminary Challenges are briefly described below. For clarity, we identify each Preliminary Challenge with the designator “JI” (for “Joint Intervenors”), the year of the update that includes the challenged items (“2017”), and a short parenthetical label. All page references are to pages included in the aforementioned informational filing.

**PRELIMINARY CHALLENGE JI-2017-1
(Radial Lines in 2017 OpCo Update)**

The 2017 OpCo Update includes radial taps and lines in the Company’s transmission formula rates. AEP responded to JI 1-34 with an attachment which reflects that the OpCo Systems have radial tap lines which total 1,049.77 miles (length net of customer miles of 1,036.84 miles) serving 463 stations. When requested in JI 2-239 to provide the gross plant investment, accumulated depreciation and depreciation expense for each of the facilities listed in the AEP response to JI 1-34, AEP responded that the information could not be provided in the format requested. AEP in its responses have stated the Company does have radial facilities and that the Company knows that there are 1,036.84 miles of radial lines net of customer miles but does not have the information in the format requested. AEP has not offered to provide the data relating to the gross investment, accumulated depreciation and the current year depreciation expense related to these radial facilities in

¹ American Municipal Power, Inc., Blue Ridge Power Agency, Craig-Botetourt Electric Cooperative, Indiana Michigan Municipal Distributors Association, Indiana Municipal Power Agency, Old Dominion Electric Cooperative, Inc., and Wabash Valley Power Association, Inc.

an alternate format. AEP has also failed to provide supporting evidence why these radial facilities should be included in the transmission formula rates for the OpCo's.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of these radial facilities (net investment and depreciation expense) that should be removed from the transmission formula rates in the 2017 OpCo Update.

**PRELIMINARY CHALLENGE JI-2017-2
(Telecommunications in Transmission Plant in 2017 ApCo Update)**

APCo has included the "Belle 46KV Substation: APCo:3205 – Remote Terminal Units (RTUs)" in transmission plant per AEP's response to JI 2-244. This represents an upgrade in the RTU for newer telecommunications technology at the Belle Station to replace analog leased lines, frame relate circuits (obsolete digital leased line), and tone telemetry installations (obsolete 2-pont system alarms). Based on the FERC System of Accounts, all communication equipment should be reflected in FERC Account 397 (Communication Equipment). AEP has not provided support for its deviation from recording this communication equipment upgrade to transmission plant rather than to Account 397. Joint Intervenors believe that this communication equipment upgrade should not be classified as transmission plant and should be reclassified to FERC Account 397.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of this communication equipment in transmission plant in the 2017 ApCo Update.

**PRELIMINARY CHALLENGE JI-2017-3
(Charleston Area Improvements Project included in Transmission Plant in 2017 ApCo Update)**

APCo has included the Charleston Area Improvements Project as being transmission related. The description of this project provided in AEP's response to JI 2-247 states that "The Charleston Area Improvements Project will ensure reliable electric service in the downtown Charleston area and provide sufficient capacity for future growth in and around downtown area."

APCo has not provided any support that this 46kV line qualifies as a transmission line that should be recovered under the transmission formula rate. . Based on the information provided to date by AEP, Joint Intervenors believe that the Chemical – Washington Street 46kV project is a distribution line serving the downtown Charleston area and, therefore, should be reclassified as distribution plant and excluded from the transmission formula rate.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of the Charleston Area Improvements Project in transmission plant in the 2017 ApCo Update.

**PRELIMINARY CHALLENGE JI-2017-4
(Research and Development and EPRI Membership Dues Improperly Included in Account 566 in 2017 IMCo Update)**

According to AEP's response to JI 2-262, Attachment 1, Tab "ABM Desc," Row 98, IMCo has included "Conduct Research & Development" in Account 566 – Miscellaneous Transmission Expenses. AEP described this item as "This activity includes all tasks associated with planning,

supervising, designing, performing and evaluating both basic and applied research projects. This activity involves collecting, analyzing, and evaluating information on all aspects of the research from study design through dissemination of results. This activity also includes all costs associated with membership in support of EPRI, including funding of EPRI sponsored research and development projects being conducted at AEP or elsewhere.” This activity does not include, market research efforts, which are captured under the process groups “Develop Business” and “Provide Customer Service.” These research and development expenses and the expenses in support of EPRI membership should have been recorded in Account 930.1. Per the Uniform System of Accounts, Account 930.1 shall include “Industry association dues for company memberships” and “research, development, and demonstration expenses not charged to other operation and maintenance expense accounts on a functional basis.” Based on AEP’s description, these research and development expenses appear to be general in nature. Note L of the formula rate template states: “Expenses recorded in FERC Accounts 928 (Regulatory Commission Expense), 930.1 (Safety Related Advertising) and 930.2 (Miscellaneous General Expenses) that are not directly related to or properly allocable to transmission service will be removed from the TCOS. If AEP includes any expenses booked to these accounts in future ATRR updates, AEP must provide supporting information demonstrating that the underlying activities are directly related to providing transmission service. Account 930.2 includes the expenses incurred by the transmission function for Associated Business Development revenues given as a credit to the TCOS on Worksheet E. AEP has not provided supporting information demonstrating that the research and development expenses are directly related to the provision of transmission service.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of these research and development expenses in Account 566 in the 2017 IMCo Update. In addition, to the extent AEP has included similar expenses in any other OpCo or TransCo, Joint Intervenors hereby state a Preliminary Challenge for the reasons mentioned herein.

PRELIMINARY CHALLENGE JI-2017-5

(Transmission Planning Studies Improperly Included in Account 566 in 2017 IMCo Update)

According to AEP’s response to JI 2-262, Attachment 1, Tab “ABM Desc,” Row 220, IMCo has included “Perform Transmission Planning Studies” in Account 566 – Miscellaneous Transmission Expenses. The Joint Intervenors believe that these expenses are more appropriately included in Account 561.6 – Transmission Service Studies. Although the reclassification of these expenses does not have an effect on the formula rate template, it was unclear to the Joint Intervenors whether IMCo has included any offsetting reimbursements received by IMCo for these studies in the formula rate.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge in the event IMCo has not included offsetting reimbursements related to these transmission planning study expenses in the 2017 IMCo Update. In addition, to the extent AEP has included similar expenses in any other OpCo or TransCo, Joint Intervenors hereby state a Preliminary Challenge for the reasons mentioned herein.

PRELIMINARY CHALLENGE JI-2017-6

(Non-Rate Case Filings Included in Account 566 in 2017 IMCo Update)

According to AEP’s response to JI 2-262, Attachment 1, Tab “ABM Desc,” Row 106, IMCo has included “Prepare Other Non-Rate Case Filings” in Account 566 – Miscellaneous Transmission

Expenses. AEP describes these expenses as “This activity includes preparation of filings that are not base-rate or fuel related. Examples include PIP riders/surcharges, boundary changes, affiliated transactions, energy conservation surcharges and emissions recovery riders. The efforts involved in research, testimony, preparation and distribution of materials that contribute to these filings are included in the activity.”

The Joint Intervenors believe that these non-rate case filings are more appropriately recorded to FERC Account 928 – Regulatory Commission Expenses and not Account 566. Account 928 not only includes formal cases before regulatory commissions, but according to the Uniform System of Accounts, also includes cases before “...other regulatory bodies, or cases in which such a body is a party, including payments made to a regulatory commission for fees assessed against the utility for pay and expenses of such commission, its officers, agents, and employees, and also including payments made to the United States for the administration of the Federal Power Act.” The examples of the filings mentioned by AEP are the types of cases that should be recorded in Account 928. Furthermore, AEP has not demonstrated that these expenses were transmission related.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of the expenses to “Prepare Other Non-Rate Case Filings” in Account 566 – Miscellaneous Transmission Expenses instead of properly recording them to Account 928 – Regulatory Commission Expenses. Joint Intervenors also object to allocating any of these expenses after reclassifying them to Account 928 in the 2017 IMCo Update until AEP can provide further documentation that they are transmission related in accordance with Note L of the template which states: “Expenses recorded in FERC Accounts 928 (Regulatory Commission Expense), 930.1 (Safety Related Advertising) and 930.2 (Miscellaneous General Expenses) that are not directly related to or properly allocable to transmission service will be removed from the TCOS. If AEP includes any expenses booked to these accounts in future ATRR updates, AEP must provide supporting information demonstrating that the underlying activities are directly related to providing transmission service. Account 930.2 includes the expenses incurred by the transmission function for Associated Business Development revenues given as a credit to the TCOS on Worksheet E.” In addition, to the extent AEP has included similar expenses in any other OpCo or TransCo, Joint Intervenors hereby state a Preliminary Challenge for the reasons mentioned herein.

PRELIMINARY CHALLENGE JI-2017-7
(Prepare Rate Case Filings Included in Account 566 in 2017 IMCo Update)

According to AEP’s response to JI 2-262, Attachment 1, Tab “ABM Desc,” Row 100, IMCo has included “Prepare Rate Case Filings” in Account 566 – Miscellaneous Transmission Expenses. AEP describes these expenses as “This activity includes tasks performed in the production and distribution of specific rate case filings. Preparation of exhibits, testimony documents and the distribution of these documents are included in this activity. Coordination with the contributing corporate departments is required. Regulatory requirements directly influence the level of effort in these tasks. The activity also includes development of sales, revenue, expense and other rate case forecasts, as well as rebuttals, briefs and re-submissions. Preparation of fuel filings is excluded in this activity and is covered separately in activity Prepare Fuel Filings.”

The Joint Intervenors believe that these rate case filings are more appropriately recorded to FERC Account 928 – Regulatory Commission Expenses and not Account 566. Account 928 includes formal cases before regulatory commissions and, according to the Uniform System of Accounts, includes “...all expenses (except pay of regular employees only incidentally engaged in

such work) properly includible in utility operating expenses, incurred by the utility in connection with formal cases before regulatory commissions, or other regulatory bodies, or cases in which such a body is a party, including payments made to a regulatory commission for fees assessed against the utility for pay and expenses of such commission, its officers, agents, and employees, and also including payments made to the United States for the administration of the Federal Power Act.” The examples of the filings referenced by AEP for support are rate cases that should be recorded in Account 928. Furthermore, AEP has indicated that these expenses are related to production and distribution and therefore should be excluded from the transmission formula rate template in accordance with Note L of the template, which states: “Expenses recorded in FERC Accounts 928 (Regulatory Commission Expense), 930.1 (Safety Related Advertising) and 930.2 (Miscellaneous General Expenses) that are not directly related to or properly allocable to transmission service will be removed from the TCOS. If AEP includes any expenses booked to these accounts in future ATRR updates, AEP must provide supporting information demonstrating that the underlying activities are directly related to providing transmission service. Account 930.2 includes the expenses incurred by the transmission function for Associated Business Development revenues given as a credit to the TCOS on Worksheet E.”

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of the expenses to “Prepare Rate Case Filings” in Account 566 – Miscellaneous Transmission Expenses instead of properly recording them to Account 928 – Regulatory Commission Expenses. Joint Intervenors also object to allocating any of these expenses after reclassifying them to Account 928 in the 2017 IMCo Update since they are not transmission related. In addition, to the extent AEP has included similar expenses in any other OpCo or TransCo, Joint Intervenors hereby state a Preliminary Challenge for the reasons mentioned herein.

PRELIMINARY CHALLENGE JI-2017-8
(Rockport U2 Lease Litigation Improperly Included in Account 923 in 2017 IMCo Update)

According to AEP’s response to JI 2-263 and 2-264, AEP has included approximately \$586,000 and \$510,000, respectively, of “Litigation – General” expenses described as related to Rockport U2 Lease in Account 923 – Outside Services Employed. Uniform System of Accounts, Account 923 states: “This account shall include the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts.” The Rockport U2 Lease appears to be related to production plant. This litigation related to the operation and maintenance of the Rockport U2 Lease should be recorded in FERC Account 507 - Rents.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of these Rockport U2 lease litigation expenses related to the production function in the 2017 IMCo Update.

PRELIMINARY CHALLENGE JI-2017-9
(Transmission Revenue Not Included in 2017 KPCo Update)

Joint Intervenors require further clarification regarding AEP’s response to JI’s question in JI 2-267. Specifically, please provide a description of the nature of the line item included in AEP’s response to JI 1-107 Attachment 1, Excel row 159, Account 454001, Account Description “Rent From Elect Property – Af,” with Line Description “Transmission Operations Center.” It appears that these revenues have not been included in the transmission formula rate as revenue credits. To the

extent these rent revenues are indeed related to the transmission function, such revenues should have been included in the formula rate.

For the foregoing reason, Joint Intervenors hereby reserve the right to state a Preliminary Challenge related to the exclusion of rent from electric property related to the Transmission Operations Center as transmission revenue credits in the formula rate in the 2017 KPCo Update.

**PRELIMINARY CHALLENGE JI-2017-10
(Research and Develop. Clearing Improperly Included in Account 566 in 2017 Ohio Power Company Update)**

According to AEP's response to JI 2-271, Attachment 2, Tab "Detail line items," Column "Descr," Ohio Power Company has included approximately \$451,000 of expenses for "Conduct Research & Development" in Account 566 – Miscellaneous Transmission Expenses, which was directly allocated from AEP's Service Company. AEP has failed to provide a description of each item to determine whether they are appropriately related to Ohio Power Company's transmission function. Without a description of these expenses, it appears that these research and development expenses should have been recorded in Account 930.1. The Uniform System of Accounts Account 930.1 shall include "Industry association dues for company memberships" and "research, development, and demonstration expenses not charged to other operation and maintenance expense accounts on a functional basis." Based on AEP's lack of a description of these research and development expenses, JIs assume they are general in nature. Note L of the formula rate template states: "Expenses recorded in FERC Accounts 928 (Regulatory Commission Expense), 930.1 (Safety Related Advertising) and 930.2 (Miscellaneous General Expenses) that are not directly related to or properly allocable to transmission service will be removed from the TCOS. If AEP includes any expenses booked to these accounts in future ATRR updates, AEP must provide supporting information demonstrating that the underlying activities are directly related to providing transmission service. Account 930.2 includes the expenses incurred by the transmission function for Associated Business Development revenues given as a credit to the TCOS on Worksheet E." AEP has not provided supporting information demonstrating that the research and development expenses are directly related to the transmission service and were properly allocated from AEP's Service Company.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of these research and development expenses in Account 566 in the 2017 Ohio Power Company Update. In addition, to the extent AEP has included similar expenses in any other OpCo or TransCo, Joint Intervenors hereby state a Preliminary Challenge for the reasons mentioned herein.

**PRELIMINARY CHALLENGE JI-2017-11
(Distribution Expenses Improperly Included in Account 923 in 2017 Ohio Power Company Update)**

According to AEP's response to JI 2-272, Attachment 1, "Summary" Tab, AEP has included approximately \$742,000 of AMI Meter, SmartGrid and OPCO Distribution related expenses in Account 923 – Outside Services Employed. Uniform System of Accounts, Account 923 states: "This account shall include the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts." These

expenses appear to be related to the distribution function. The consulting expenses related to distribution should be recorded to their associated distribution FERC accounts.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of the following expenses included in Account 923 unless AEP can provide supporting documentation that these are general in nature and not related to a specific function in the 2017 Ohio Power Company Update.

| | | |
|--------------|------------------------------|--------------|
| 1. AMIMETERS | AMI Meter Phase II | \$518,269.00 |
| 2. AMIPRJMG | AMI PM Labor | \$ 19,800.00 |
| 3. DATAREPRT | Smart Grid Data Reporting 1 | \$ 61,331.25 |
| 4. EDN103177 | General - OPCO Distribution | \$ 239.98 |
| 5. EDNANDA | General - OPCO Distribution | \$ 930.00 |
| 6. PHS2STUDY | Phase 2 Feasibility Study | \$ 32,876.54 |
| 7. PHS3STUDY | Phase 3 Feasibility Study | \$ 90,671.79 |
| 8. SG2COLLAB | Smart Grid PH2 Collaborative | \$ 18,123.50 |

PRELIMINARY CHALLENGE JI-2017-12

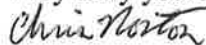
(Interest and Financing Expenses Improperly Included in Account 923 in 2017 IMTCO Update)

According to AEP's response to JI 2-288, Attachment 1, "Work Order Description" Column, AEP has included "Interest and financing costs associated with working capital and short-term borrowings or investments" related expenses in Account 923 – Outside Services Employed. Uniform System of Accounts, Account 431 states: "This account shall include all interest charges not provided for elsewhere." All interest and financing costs associated with working capital, short-term borrowings or investments should be recorded in FERC Account 431.

For the foregoing reasons, Joint Intervenors hereby state a Preliminary Challenge with respect to the inclusion of these interest and financing expenses included in Account 923 in the 2017 IMTCO Update. In addition, to the extent AEP has included similar expenses in any other OpCo or TransCo, Joint Intervenors hereby state a Preliminary Challenge for the reasons mentioned herein.

Please acknowledge your receipt of this letter and notification by "Reply All" e-mail. In addition, feel free to contact me directly if you have any questions concerning the above-described Preliminary Challenges. Finally, I would be grateful if you would include the persons copied on the email as recipients of all future correspondence concerning this matter.

Very truly yours,



Chris Norton

Director of Market Regulatory Affairs
American Municipal Power, Inc.