AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-01:

In reference to AEP East's response to JI-1-2, AEP East identified an error in WPCo's true-up where Account 4560012 transmission balance was not included in the transmission calculation on the revenue credits tab, which would reduce the revenue requirement by $199,997.07. AEP East indicated a correction will be made in the 2024 PTRR.

Response:
The Company agrees with the Preliminary Challenge and will make a correction in the PTRR FR summary.

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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-02:

In reference to AEP East's response to JI-1-40, AEP East identified an error where the payment for ROW use on WPCo was "inadvertently report on WS E as Non-Transmission when in fact it was Transmission." AEP East indicated an adjustment of $200,000 will be made to the revenue requirement in the 2024 update.

Response:
The Company agrees with the Preliminary Challenge and will make a correction in the PTRR summary.

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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-03:

In reference to the engineering meetings held with AEP East on March 18, 2024, the company indicated that the following asset additions in 2022 would be removed from transmission plant in APCo. To the extent that there are other amounts associated with these facilities included in transmission plant accounts, please confirm that those assets will also be removed and identify the additional associated amounts.
a.: Smith Mountain Pumped Storage Hydro Plant : APCo : 0550 in the amount of $44,400 will be removed from transmission plant as its generation related.
b.: Roanoke Garage 2nd Street and Roanoke POP : APCo : 7257 in the amount of $387 will be transferred to General Plant.

Response:
Confirmed. The Company agrees with the Preliminary Challege that Smith Moutain Pumped Storage Hudro Plant and Roanoke Garage 2nd Street assets should be removed from Transmission Rates.

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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-04:

In reference to the engineering meetings held with AEP East on March 18, 2024 and May 13, 2024, the company indicated that the following asset additions in 2022 would be removed from transmission plant in Ohio Power. To the extent that there are other amounts associated with these facilities included in transmission plant accounts, please confirm that those assets will also be removed and identify the additional associated amounts.
a.: Canton Office - 301 Cleveland Ave : OPCo : 3021 in the amount of $155,187.51 will be transferred to General Plant.
b.: Elliott - Meigs (Tap Salesbury, Bashan, Coolville) 69KV Line : CSP : 6006 in the amount of $57,509.20 is an abandoned plant and will be removed from transmission plant.
c.: Howard 138KV Substation : OPCo : 2023 - TRO10034951_HOWARD 12KV RECLOS in the amount of $10,954 will be removed from transmission plant.
d.: Pekin 69KV Substation : OPCo : 1022 - PEKIN - 12KV CB D REPLACE DPU $50,278 will be removed from transmission plant.
e.: South Cadiz 138KV Substation : OPCo : 5075 - SOUTH CADIZ - REPLACE 12KV REG in the amount of $150,775 will be removed from transmission plant.
f.: South Cambridge 138KV Substation : OPCo : 4232 in the amount of $62,282 will be removed from transmission plant.
g.: Torrey 138KV Substation and Pole Storage : OPCo : 1023- TORREY 12KV CB-KC - REPLACE DP in the amount of $28,044.23 will be removed from transmission plant and included in distribution.
h.: Torrey 138KV Substation and Pole Storage : OPCo : 1023- TRO80049444_TORREY REPLACE 12K in the amount of $33,010.52 will be removed from transmission plant and included in distribution.
i.: Zanesville Service Center : OPCo : 3420 in the amount of $1,667.83 will be transferred to General Plant.

Response:
Confirmed. The Company agrees with the Preliminary Challenge that assets in a. - i. should be removed from Transmission Rates.

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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-05:

On May 13, 2024, AEP East and the JCG representatives met to discuss the OPCo, KYCo and IMCo transmission asset additions in 2022 that appeared to be unrelated to transmission. Per a follow-up email from AEP East representative, David Weiss, on June 14, 2024, the company provided additional information as a result of that meeting. Based on AEP East's response, it appears that the following assets should not be included as transmission plant.
a.: Lutz – Yellowbud Solar 138kV Line : OPCo : 0423 – When asked whether any CIAC was paid by the customer, AEP indicated that "Yes, all the IPP costs are reimbursed by the developer. The CIAC payment is recorded to 107, which offsets the Company's cost of the project." Since this asset has been included in Account 101 in a transmission plant account, it is unclear whether AEP East is stating that the amounts included in transmission plant have an offsetting entry for the CIAC. Otherwise, an offsetting entry to Account 107 does not properly remove the asset from transmission plant. The JCG challenges the inclusion of this asset until further clarification can be provided.
For subparts b. through g. below, in the email from AEP East, under the New Liberty assets the company indicated that "Per review from Transmission Field Services, these transformers listed here and at the West Moulton station highlighted below should have been recorded as distribution. The Company will reclass these to the appropriate plant account." And under the description for the West Moulton assets the company indicated that "Should be distribution. See description for New Liberty highlighted above." The JCG is unclear on whether AEP East is indicating that the following assets should be removed from transmission rates. The JCG challenges the inclusion of these assets in transmission rates as they appear to be distribution. To the extent that there are any remaining amounts associated with these assets in transmission plant accounts, the JCG also challenges those amounts. In addition, the JCG requests that AEP East provide the associated amounts related to each of the following assets referenced in its email.
b.: New Liberty – Findlay 34kV ROW (Sub-Transmission Lines =<69KV – Ohio
c.: New Liberty 138KV Substation : OPCo : 2108
d.: New Liberty 138KV Substation : OPCo : 2108
e.: West Moulton 138KV Substation : OPCo : 2323 – P20142012 More Details
f.: West Moulton 138KV Substation : OPCo : 2323 P18009014 More Details
g.: West Moulton 138KV Substation : OPCo : 2323

Response:
a., c. - g. The company agrees with part a., c. - g. of this Preliminary Challenge, and the following will be an adjustment to remove from the transmission rates: Lutz-Yellow Solar totaling $16,109, New Liberty 138KV Substation totaling $214,493. and West Moulton 138KV Substation totaling $2,692,393.

b. The company disagrees with part b. of this Preliminary Challenge. New Liberty - Findlay 34kV Right of Way work is associated with a rebuild of a 34.5kV substation transmission line and should be treated as Transmission in the Formula Rates.

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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-06:

In reference to the engineering meetings held with AEP East on March 18, 2024, AEP East indicated that it has a policy to record spare transformers based on the location the transformer its being stored. Per the discussion with AEP East, the distribution switchyards are too small to host spare transformers; therefore, all spare transformers are stored at transmission switchyards and recorded as transmission plant. AEP's accounting for spare transformers based on location instead of voltage is inappropriate. AEP East has overstated the amount of spare transformer assets in its transmission plant accounts. See the following examples from APCo of spare transformers with lower voltages that should be classified as distribution.
a.: Belva 138/46KV Substation : APCo : 3007 - $1,058,658.88 - TransformerTransmission Subs 138KV-WV, APCo2022T10213281Purchase Spare 139-34.5 kV 10 Transformer (Includes Autotransformer, Power, GSU, Station Service) - Each
b.: Cloverdale 765KV Substation : APCo : 7114 - $826,165.85 - Non-unitizedTransmission Subs 765KV-VA, APCo2022T10478529Purch Spare 69/34.5kV 14-25 MV Purch Spare 69/34.5kV 14-25 MV
c.: Merrimac 138KV Substation : APCo : 6194 - $595,887.27 - TransformerTransmission Subs 138KV-VA, APCo2021T10213267Purchase Spare 69-12kV 20MVA W Transformer (Includes Autotransformer, Power, GSU, Station Service) – Each
d.: Turner 138KV Substation : APCo : 3143 - $584,339.96 - TransformerTransmission Subs 138KV-WV, APCo2022T10213275Purchase Spare 138-6/46kV 40 M Transformer (Includes Autotransformer, Power, GSU, Station Service) – Each
For the foregoing reasons, the JCG challenges AEP East's practice of recording all spare transformers as transmission plant as some of them should be recorded to distribution plant. AEP East has failed to provide any FERC precedent or guidance that allows the AEP East companies to record all of these assets 100% to transmission. AEP East's treatment is unequitable and does not reflect a methodology that incorporates the actual ultimate use of the transformers.

Response:
The Company disagrees with the Preliminary Challenge. The assets in question were acquired to support the operations of a transmission substation. With the exception of assets under 23 kV, which the Companies record as distribution, the Companies do not use the voltage of the facility to classify it as transmission or distribution. Rather than looking solely at the voltage of the facilities, the companies evaluate the function of the facility, consistent with FERC policy, to determine if the facility serves a Transmission function. *See PJM Interconnection, L.L.C.*, 127 FERC ¶ 61,016, at P 38 (2009) (finding that costs associated with a project to replace 138/13 kV transformers with 230/13 kV transformers were recoverable under the PJM Tariff even though the transformers being replaced were distribution level facilities where "the replacement of the

transformers would not be required except for the need to resolve contingency violations on the transmission system").

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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-07:

In reference to the engineering meetings held with AEP East on March 18, 2024, AEP East indicated that it uses "simple" accounting for all of the AEP East companies, except Ohio Power, to decide whether assets should be included as transmission or distribution. Under AEP East's internal 1972 Bulletin No. 12, which provides guidance on segregating stations and lines between transmission and distribution plant. AEP East's decision to follow a bulletin that designates (i) all lines above 23kV as transmission unless the primary function is to distribution electricity directly to line transformers and (ii) all stations transforming voltage from lines classified as transmission to voltages for lines classified as transmission even though they may have distribution functions is not in compliance with the FERC seven-factor test and predates the establishment of FERC itself. AEP East further explained that once a substation or line is deemed as transmission the company never reevaluates whether the ultimate use of new assets being added should be considered as transmission, distribution, radial etc. Furthermore, all assets added to a transmission designated substation or line is deemed as transmission regardless of whether the voltage of a new asset may be 4kV etc. In addition, AEP East's position that from an engineering perspective an asset may be a radial line, but due to the "simple" accounting method is required to be recovered under NITS is unsupported as the formula rate template was set up to remove excluded facilities from transmission. AEP East's outdated practices that do not follow FERC policy has overstated the transmission assets included in the AEP East companies.

Response:
The Company disagrees with this Preliminary Challenge. 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 Commission has acknowledged that "[a] seven-factor test is not always necessary to determine the appropriate classification of a facility; for instance, a project's configuration may make clear whether the facility is local distribution or transmission." *See Consumers Energy Co. v. Midcontinent Independent System Operator, Inc.*, 171 FERC ¶ 61,020, at P 88 (2020). 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.

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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-08:

In reference to AEP's response to Data Request Set JI-1-31, Attachment "JI-1-31_Attachment_1," the JCG requested AEP provide the FERC account(s) and associated amounts where depreciation expense from AEPSC is recorded. AEP has inappropriately recorded depreciation expense from AEPSC to FERC accounts 560-573. AEPSC does not own functional utility assets (i.e. production, transmission and distribution) therefore the depreciation expense associated with AEPSC is related to general plant and intangible plant amortizations. It is inappropriate for AEP to record any AEPSC depreciation expense to any account other than A&G. For the foregoing reasons, the JCG challenges the following AEPSC depreciation expense amounts:
Sums of Accounts 560-573
a.: Sum of AEP Appalachian Transmission Company, Inc. $755.46
b.: Sum of AEP Indiana Michigan Transmission Company, Inc. $14,713.87
c.: Sum of AEP Kentucky Transmission Company, Inc. $1,490.67
d.: Sum of AEP Ohio Transmission Company, Inc. $37,607.99
e.: Sum of AEP West Virginia Transmission Company Inc. $17,413.88
f.: Sum of Appalachian Power Company $49,743.23
g.: Sum of Indiana Michigan Power Company $12,623.07
h.: Sum of Kentucky Power Company. $10,023.18
i.: Sum of Kingsport Power Company $957.70
j.: Sum of Ohio Power Company $41,370.27
k.: Sum of Wheeling Power Company$1,094.21

Response:
The Company disagrees with this Preliminary Challenge. The assets in question are not in service on the books of the OpCos and the TransCos, these depreciable assets are on the books of AEPSC. These costs are recorded to FERC Accounts 403 or 403.1 on AEPSC's books and are part of the fully loaded costs from AEPSC that is loaded over AEPSC labor (as part of departmental overhead loading process) as a cost incurred by the OpCos and the TransCos for receiving services from AEPSC. FERC, in the latest audit of AEPSC, did not object to the treatment of these costs through the overhead loading process.

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Data Request JCG-2022-09:
In reference AEP's response to Data Request JI-1-61 and Attachment JI-1-61_Attachment 1, the JCG challenges expenses recorded by the AEP East OpCos and AEP East TransCos in Account 931, Rents, during calendar year 2022 and included in the 2022 ATRR and True-Up calculations. AEP's response included a listing of the Account 931 transactions recorded by each company during 2022 and a summary of the rent transactions by general category without any description of the property leased or rented. The information provided fails to include the requested details of the name, description of each cost item, and amount of each Account 931 rent transaction and is not sufficient to support and justify the AEP East companies' inclusion of the Account 931 rent expenses totaling $6,203,442.04 (Excel Rows 9 and 10) in the respective companies' 2022 ATRR calculations. The JCG challenges the entirety of the AEP East companies' formula rate inputs for Account 931, Rents, included in the 2022 ATRR calculation until the requested supporting data has been provided to the JCG for review.

Response:
The Company disagrees with this challenge. Please see JCG-2022-09 Attachment 1 for the totals and manual journal entries and JCG-2022-09 Attachments 2 and 3 for additional details.

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Responses to Joint Customers
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Data Request JCG-2022-010:

In reference to APCo's "WS F Misc Exp" tab, Account 928, Line 20, State Publ Serv Commission Fees, Col. (E) - 100% Transmission Specific in the amount of $133,866 the JCG challenges these PSC Fees and associated amounts on the basis that it is unclear what transmission property these assessments are related to (e.g. citing etc.) and/or whether they are just general annual PSC Fees.

Response:

NOTE:
The response to this question is considered Confidential or Highly Sensitive.

For access to this response, a signed Confidentiality Agreement is required.

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Responses to Joint Customers
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Data Request JCG-2022-011:

In reference to AEP's response to Data Request Sets JI-2-29, JI-2-36, JI-2-49, and their corresponding attachments the JCG challenges the items that are "Miscellaneous Items - < $25K" as it provides no further information as to the FERC docket nos. these expenses are associated with.

Response:
The Company disagrees with the Preliminary Challenge. The disputed miscellaneous charges represent general labor charges for time spent on general filings, which support all functions of the business, including transmission. As such, a portion of these charges is appropriately allocated to transmission.

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Set PC-1 of Data Requests

Data Request JCG-2022-012:

In reference to AEP East's response to JI-90 and the attachment "JI-2-71_Attachment_1," AEP East has provided information in the attachment that demonstrates rental revenues by facility. It appears that the majority of these facilities are the types of facilities recorded to General Plant accounts and included in the transmission formula rate based on a wages and salaries allocator. Based on each of the tabs in the formula rate templates (WS E Rev Credits), it is unclear whether these rental revenues have been included as offsets to rate base. The JCG requests that AEP East specify (i) what company and plant account each facility has been recorded to and (ii) whether any of the amount shown were included as revenue credits in order to determine whether there are missing revenues For the foregoing reasons, the JCG challenges any omitted revenues associated with facilities included in general plant or transmission plant account that are not included as revenue credits.

Response:
The Company disagrees with this Preliminary Challenge. The rental revenues by facility in JI-2-71_Attachment 1 are included in WS E Rev Credits in the transmission formula rates based on a wages and salaries allocator and included as an offset to rate base on line 2 in the TCOS schedules.

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Data Request JCG-2022-013:
In reference to AEP East's responses to JI-1-99, "JI-1-99_Attachment_1," JI-1-1-102, JI-1-103, JI-1-104, "JI-1-104_Attachment_1 through Attachment_11," JI-1-105, "JI-1-105_Attachment_1," JI-1-107, "JI-1-107_Attachment_1," JI-2-127, "JI-2-127_CONFIDENTIAL_Attachment 1," and JI-2-128 regarding the calculations of the AEP East OpCos' and AEP East TransCos' 2022 Allowance for Funds Used During Construction ("AFUDC") rates. The JCG challenges each AEP East Company's 2022 borrowed funds and other funds AFUDC rate calculations on the basis that inputs to the annual AFUDC rate calculations were unsupported and/or were not computed on a basis consistent with FERC's AFUDC regulations Electric Plant Instruction No. 3(17) of FERC's Uniform System of Accounts (18 C.F.R. Part 101 (2023)). Also, the JCG challenges the AEP East OpCos' and AEP East TransCos' borrowed funds and other funds calculations and accruals of AFUDC on construction work orders during calendar year 2022. Given the AEP East OpCos and AEP East TransCos failure to comply with the FERC's AFUDC regulations for computing borrowed funds and other funds AFUDC rates and to provide supporting documentation of the companies' calculations of its AFUDC inputs, the JCG is concerned that the AEP East Companies have capitalized AFUDC during calendar year 2022 in excess of the amount allowed by Electric Plant Instruction No. 3(17). The JCG requests that AEP East provide the requested supporting documentation and transparency for the 2022 AFUDC inputs and explain the apparent discrepancies in the AEP East Companies' calculations of its 2022 AFUDC rate calculations. To the extent that the AEP East OpCos and AEP East TransCos have capitalized AFUDC in excess of the amount allowed by the FERC's AFUDC regulations, the companies must make the appropriate correcting entries on their books and include appropriate adjustments and corrections in the AEP East OpCos' and AEP East TransCos' 2024 ATRR and True-Up calculations.
Relevant to this preliminary challenge, FERC's AFUDC regulations require the computation of borrowed funds and other funds AFUDC rates to be computed on an *annual basis* using the formulas codified in Electric Plant Instruction No. 3(17).[1][1] Also, the AFUDC regulations require an *annual* calculation of the daily weighted average balance of short-term debt outstanding (input "S") and of the annual short-term debt interest rate (input "s"). In addition, the regulations require an input for the 13-month average of the utility's construction work in progress ("CWIP") month-end balances (input "W"). Also, the AFUDC formulas require a calculation of the annual percentage of 13-month average of the CWIP balances that were funded by the average balance of short-term debt for the calendar year by computing "S/W". FERC's AFUDC regulations also require inputs to the borrowed funds and other funds AFUDC rate calculations for the balances of long-term debt outstanding (input "D") and common equity (input "C") at the end of the prior calendar year. In the data request JI-1-104, the JCG requested that AEP East provide "the monthly, quarterly, semi-annual, or annual calculations and formulas supporting all of AEP East's AFUDC

rates computed for the borrowed funds and other funds rates in workable Excel spreadsheets that were applied to construction costs for 2021 and 2022 and include this information in workable Excel spreadsheets showing the derivation and source of all inputs to AEP East's AFUDC formula rate calculations for the inputs to the AFUDC rate formula for (i) the balances of common equity (input "C"), preferred stock (input "P"), long term debt input "D"), daily weighted-average balance of short-term debt (input "S"), and the 13- month average of CWIP (input "W"), (ii) the cost rates for short-term debt (input "s"), long-term debt computed using a yield to maturity basis at issuance for each borrowing (input "d"), preferred stock (input "p"), and common equity (input "c"), and (iii) provide supporting documentation and calculations that provide transparency on the borrowed funds and other funds AFUDC rates derived. (Please provide the spreadsheets formatted to retain all notes and any formulas supporting the calculations.)"

In response, in JI-1-104 and "JI-1-104_Attachment _1 through Attachment_11," AEP East provided "December 22" computations of AFUDC rates (borrowed and other funds rates) for each AEP East company. Also, in response to JI-1-99 and "JI-1-99_Attachment_1," AEP East provided lists of the actual AFUDC rate(s) that each AEP East OpCo and TransCo used to capitalize AFUDC accruals for each calendar month in 2022. The listing of AFUDC rates, debt and equity rates, on "JI-1-99_Attachment_1" has monthly debt and equity AFUDC rates for each AEP East company, and for some companies had debt (i.e., borrowed funds) and equity (i.e., other funds) AFUDC rates computed on a functional plant basis.

A. **Use of monthly AFUDC inputs for the balance of short-term debt, cost rate for short-term debt, and the balance of CWIP rather than annual inputs**.

The "December 22" AFUDC rate computations on "JI-1-104_Attachment_1 through Attachment_11"), do not include any supporting worksheets showing the source and derivation of each input to the AFUDC formulas. Based on the descriptions on each attachment, each AEP East company used the *prior month* average daily short-term debt balance for the "S" input to the formula, the short-term debt interest rate for the "s" input to the formula was based on the average interest rate from the *prior month*, and the CWIP input ("W") was based on the prior month end balance.[2][2]

The AEP East OpCos' and AEP East TransCos' use of prior month average daily balance of short-term debt, average short-term debt daily interest rate from the prior month, and the average prior month balance of CWIP to compute the "S," "s," and "W" inputs to an AFUDC calculation does not comply with FERC's AFUDC requirements regarding the computation of AFUDC rates on an *annual basis*. AEP East has not provided any FERC orders authorizing this variance from the Commission's AFUDC regulations on the computation of inputs to the AFUDC formulas on an annual basis.

When FERC adopted and codified its AFUDC regulations, FERC explained "[t]he average short-term debt balances ["S"] and related cost and the average construction work in progress balance ["W"] will be estimated for the current year. We shall require, however, that public utilities and natural gas companies monitor their actual experience and adjust to actual at year-end if a significant deviation from the estimate should occur. For this purpose we shall consider a significant deviation to exist if the gross AFUDC rate exceeds by more than one-quarter of a percentage point (25 basis points) the rate that is derived from the formula by use of actual 13 monthly balances of construction work in progress and the actual weighted average cost and balances for short-term debt outstanding during the year."[3][3]

AEP East needs to be provide the 2022 AFUDC inputs for "S," "s," and "W" for each company computed on an annual basis.

B. **Incorrect Calculations of Long-Term Debt balance input "D"**.

i. Certain AEP East Companies (AEP APTransco ("JI-1-104_Attachment_1"), AEP IMTransco ("JI-1-104_Attachment_2"), AEP KYTransco ("JI-1-104_Attachment_3"), AEP OHTransco ("JI-1-104_Attachment_4"), AEP WVTransco ("JI-1-104_Attachment_5"), KGSPT ("JI-104_Attachment_9"), and WPCO ("JI-1-104_Attachment_11") did not correctly compute the long-term debt input ("D") for the annual AFUDC rate calculations. That is, it appears that these companies improperly included in the computation of the "D" input the balances for Account 181, Unamortized Debt Expenses, Account 225, Unamortized Premium on Long-Term Debt, and/or Account 226, Unamortized Discount on Long-Term Debt-Debit.

ii. Regarding APCO's "D" input on "December-22" ("JI-1-104_Attachment_6"), it is not clear what has caused the discrepancy regarding this input in APCO's 2022 AFUDC rate calculations. According to APCO's 2022 FERC Form 1, Page 112, Column d, Lines 18 and 21, total Long-Term Debt outstanding at December 31, 2021 was $4,982,989,952 which should be the "D" input used in the APCO AFUDC rate calculations; however, the "D" input used by APCO was $4,661,881,393 for a difference of $321,108,559. There is no explanation of the reason for the difference and the difference may be an indication of an error in the calculation of APCO's "D" input.

iii. Also, I&M's "D" input on "December-22" ("JI-1-104_Attachment_7"), it is not clear what caused the discrepancy regarding the AFUDC "D" input in I&M's 2022 AFUDC rate calculations. According to I&M's 2022 FERC Form 1, Page 112, Column d, Line 21, total Long-Term Debt outstanding at December 31, 2021 was $3,103,597,061. However, I&M's "D" input on "JI-1-104_Attachment 7" was $2,777,535,444. There is no explanation as to why I&M's "D" input is $326,061,517 less than the balance of Long-Term Debt outstanding at December 31, 2021 and may be an indication of an error of the calculation of I&M's "D" input.

iv. In addition, KYPCO's AFUDC "D" input for "December-22" ("JI-1-104_Attachment_8") is $1,102,737,524. However, KYPCO's Long-Term Debt balance outstanding at December 31, 2021 is $1,105,000,000 on KYPCO's 2022 FERC Form 1, Page 112, Column d, Line 21. "JI-1-104_Attachment_8" does not explain why the "D" input was $2,262,476 less than the balance reported in KYPCO's 2022 FERC Form 1 and may be an error in the computation of KYPCO's "D" input.

v. In reference to OPCO's "D" input on "December-22" ("JI-1-104_Attachment_10") of $2,965,654,291. This input differs from OPCO's 2022 FERC Form 1, Page 112, Column d, Line 21, Long-Term Debt balance outstanding of $3,000,745,198 at December 31, 2021. There is no explanation as to why OPCO's AFUDC "D" input is $35,090,907 less than the balance reported in OPCO's 2022 FERC Form 1 which may be an error in the calculation of OPCO's "D" input for the 2022 AFUDC rate calculations.

C. **No supporting documentation was provided for each AEP East OpCos and AEP East TransCos' cost rate of Long-Term Debt (input "d").** AEP East has not provided any support for or documentation of the calculation of each company's Long-Term Debt cost rate input for the 2022 AFUDC rate calculations (input "d").

D. No supporting documentation provided for the AEP East Companies' Short-Term Debt cost rate on "December-22" ("JI-1-104_Attachment_1 through Attachment_11") of 4.4537%. It is not clear why the Short- Term Debt cost rate is the same rate for all AEP East Companies and why the "s" rate is not based on each AEP East company's actual Short-Term Debt interest costs for 2022.

E. No supporting documentation provided for the source data or supporting documentation for the monthly debt and equity AFUDC rates included on "JI-1-99_Attachment_1" for each company except for those provided in "JI-1-104_Attachment_1 through Attachment_11." No data was provided to support these AEP East OpCos' and AEP East TransCos' monthly AFUDC debt and equity rates.

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[1] Electric Plant Instruction No. 3(17)(b) states: The rates shall be determined *annually*. The balances for long-term debt, preferred stock and common equity shall be the actual book balances as of the end of the prior year. The cost rates for long-term debt and preferred stock shall be the weighted average cost determined in the manner indicated in § 35.13 of the Commission's Regulations Under the Federal Power Act. The cost rate for common equity shall be the rate granted common equity in the last rate proceeding before the ratemaking body having primary rate jurisdictions. If such cost rate is not available, the average rate actually earned during the preceding three years shall be used. *The short-term debt balances and related cost and the average balance for construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment, and fabrication shall be estimated for the current year with appropriate adjustments as actual data becomes available.*

[2] *See*, "JI-2-127_CONFIDENTIAL_Attachment_1," Section II,A., "…[t]he balance and interest rate for short-term debt will continue to be the average daily balance and the average interest rate from the prior month. The revised annual AFUDC rate calculation will also continue to use a prior month end balance for construction work in progress."

[3] Order No. 561, 57 F.P.C. 608 at 611, 1977.

Response:

a. The Company disagrees with this Preliminary Challenge. The FERC Uniform System of Accounts Electric Plant Instructions No. 3. A.(17)(b) states that states that short-term debt balances and related cost shall be estimated for the current year with "appropriate adjustments as actual data becomes available." Further, the Company included this methodology in compliance with FERC's Audit Finding on AFUDC in Docket No. FA17-1, which staff accepted as complete.

b. See attachment 'JCG-2022-013 LTD Accounts'

c. See attachments 'JCG-2022-013_C'

d. The Short-Term Debt cost rate is the same rate for all of the AEP East Companies because the rate is AEP Parent's that is passed down to all the operating companies.
e. See attachment 'JCG-2022-013_E'

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Data Request JCG-2022-014:

In reference to JI-1-98, "JI-1-98_Attachment_1 through Attachment_11," and JI-1-106, the JCG asked "AEP East to provide, for the largest transmission projects that were placed in service in 2022, a detailed spreadsheet providing the computation of the actual AFUDC accruals that were capitalized on a monthly basis. The calculation should illustrate the monthly computation of the construction base the AFUDC rate is applied to, including prior month construction balances, cash expenditures, and compounded AFUDC. The worksheets and/or files should retain all notes and any formulas supporting the calculations." In response, AEP East stated "that AFUDC calculations are performed by the company's asset management system (Powerplan)." AEP East's response to these discovery responses was nonresponsive, inadequate, and lacking in transparency regarding AFUDC capitalized on major transmission projects placed in service during calendar year 2022. The information provided on "JI-1-98_Attachment_1 through Attachment_11" was a dollar amount of debt and equity AFUDC capitalized during calendar year 2022 for each major transmission project.
For each of the projects listed on "JI-1-98_Attachment_1 through Attachment_11," AEP East should include a summary of the AFUDC eligible construction base, monthly construction charges (i.e., additions, adjustments, corrections), the amount of debt AFUDC and the amount of equity AFUDC capitalized by CWIP work order by month, and compounded AFUDC amounts for debt and equity AFUDC, monthly debt and equity AFUDC rates used to capitalize AFUDC by month. As discussed in the preliminary challenge JCG-2022-013, the JCG challenged the AEP East Companies' 2022 AFUDC rates as they include errors in the computation of AFUDC rate inputs and/or lack supporting information and documentation. Given the AEP East OpCos' and AEP East TransCos' failure to provide the requested information that is response to JI-1-98 and JI-1-106, the JCG challenges the AEP East Companies' capitalization of AFUDC on major construction projects closed to plant in service during 2022. The JCG requests that AEP East provide the requested information for review and evaluation.

Response:
The Company disagrees with this Preliminary Challenge. See attached 'JCG-2022-014' for the requested information.

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Responses to Joint Customers
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Data Request JCG-2022-015:

In reference to AEP's responses to JI-1-38, JI-2-93, and "JI-2-93 Attachment 1," annually, the American Electric Power Service Corporation ("AEPSC") bills the AEP East OpCos, AEP East TransCos, and other AEP affiliates for all of AEPSC's taxes. According to "JI-2-93_Attachment_1," AEPSC billed the AEP East affiliates a total of $11,987,709 of income taxes during calendar year 2022. AEPSC's total 2022 billings for income taxes were $19,469,770. The amounts billed to each AEP East Company are listed on the "AEPSC Billing" tab of "JI-2-93_Attachment_1." Each AEP East Company recorded its AEPSC billings for income taxes in its Account 923, Outside Services Employed, and included the income tax billings in its 2022 ATRR calculations.

AEPSC's total 2022 income tax billings of $19,469,770 included income taxes for Book Accruals for federal and state income taxes of $5,443,506, amortization of protected and unprotected deferred federal income tax ("DFIT") excesses of $(2,036,852), DFIT for tax credit carryforwards-deferred tax asset of $5,631,287, NOL-Deferred Tax Asset Reclass of $370,174, Permanent Schedule M's of $10,123,367, FIN 48 Permanent item of $3,711,741, NOL-Reclass to/from Deferred tax Asset of ($370,174), R&D Credit-Current of $2,315,344, Special Tax Credits/Adjustments of $(107,380), and Tax Credit C/F of $(5,631,287). The AEP East Companies have not provided any supported documentation and explanations as to why these income tax effects are appropriately billed to each AEP East Company and included in each AEP East Company's 2022 ATRR. The tax items appear to also include the income tax effects of temporary and permanent book-tax differences where AEPSC bills the AEP East Companies and other AEPSC affiliates for the entirety of AEPSC's current and deferred federal and state income taxes.

In addition, all of the Schedule M items listed on "Tax Rate Reconciliation" Tab of "JI-2-93_Attachment_1" are permanent book-tax differences for membership dues, miscellaneous tax return adjustments, non-deduct fines and penalties, non-deduct lobbying, non-deduct meals and T&E, non-deductible parking expense, restricted stock plant-tax deduction, Sec. 162(m) Limit – non-deduct compensation, stock-based comp-carrier shares-perm, and umbrella trust-PLCY CVS Earn. Unless approved by FERC, the associated costs of these permanent differences and the associated income tax expenses should be recorded in non-operating expense and income tax accounts. Fines and penalties are recorded in Account 426.3, Penalties. Lobbying costs are recorded in Account 426.4, Expenditures for Certain Civic, Political and Related Activities, or other non-operating expenses are recorded in Account 426.5, Other Deductions and income taxes associated with non-operating activities are recorded in Account 409.2, Income Tax, Other Income and Deductions, Account 410.2, Provision for Deferred Income Taxes, Other Income and Deductions, and Account 411.2, Provision for Deferred Income Taxes-Credit, Other Income and Deductions.

The JCG challenges each AEP East Company's inclusion of the AEPSC income tax billings totaling $11,987,709 as inputs to the 2022 ATRR calculations of each AEP East Company. Given AEP East's failure to provide supporting information and documentation for the AEPSC income tax billings, the JCG challenges the inclusion of the income tax billings in each AEP East Company's Account 923 for purposes of the 2022 ATRR calculations. Therefore, the AEP East Companies should record the AEPSC income tax billings in the appropriate non-operating income tax accounts and exclude all of the income tax billings from the 2022 ATRR calculations.

Response:
The Company disagrees with this Preliminary Challenge.
Per FERC Order No. 667-A, "In Order No. 667, the Commission allowed centralized service companies to sell non-power goods and services to affiliated utilities using an 'at cost' standard." *Repeal of the Public Utility Holding Company Act of 1935 and Enactment of the Public Utility Holding Company Act of 2005,* 115 FERC ¶ 61,096, at P 38 (2006). According to 18 CFR § 367.25, "[a] service must be deemed at cost and fair allocation of costs requires an accurate accounting for the elements that make up the aggregate expense of conducting the business of the service company. In the accounts prescribed in this part, the total amounts included in the expense accounts during the period plus the amount that appropriately may be added as compensation for the use of capital constitute cost during that period." AEPSC income taxes are an operating cost of AEPSC that allows the centralized service company to provide cost-effective services to the utilities.
In addition, for Account 426.5, Other deductions, the FERC Uniform System of Accounts states: "This account shall include other miscellaneous expenses which are nonoperating in nature, but which are properly deductible before determining total income before interest charges." As stated above, AEPSC income taxes are clearly not nonoperating in nature and, therefore, would not belong in account 426.5. It would also not be appropriate to record AEPSC income taxes in income tax accounts on the AEP affiliates' books as these taxes are not the income tax expense of the affiliate and do not fit within the FERC instructions for accounts 409 and 410.

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Data Request JCG-2022-016:
In reference to AEP East's response to JI-1-3 and "JI-1-3_Attachment_1," AEP East was asked to "identify the nature and amount of any one-time expenses that were written-off to any transmission O&M account or A&G account of each of the OpCos and TransCos during 2022...identify the FERC account numbers in which such write-offs were recorded…[t]o the extent that any of the OpCos and TransCos wrote off any projects, …provide the following for each of the projects that were written off to cancelled projects:
a. A detailed list of each project and the FERC Account where each was recorded.:
b. Date each project started.
c. Date each project was cancelled.
d. Identify any debt or equity AFUDC included in each project and its associated amount.
e. The purpose of each project.
f. Identify whether each project was customer initiated or by the OpCos or TransCos. If it was customer initiated, please identify the specific customer that initiated the project."

In response, AEP East stated "[t]he Company objects to this question on the grounds that it is vague and unduly burdensome. All individual transactions are, by definition, discrete and therefore constitute one-time expenses as described in the question. Without waiving this objection, the Company states as follows: Please see JI-1-3 Attachment 1 for charges by account representing write-offs of activity from the 107 account. Because of the volume of information requested, the Company will provide the requested detail for a sample of projects to be selected by Joint Intervenors. The Company further notes each transaction may or may not be similar to other transactions recorded by the Company, and therefore cannot be appropriately distinguished as "one-time expenses" as described in the question."

AEP East's summary of write-offs during 2022, identified costs totaling $7,843,303 that were charged to accounts that are inputs to the AEP East Companies' 2022 ATRR calculations:

AEP East failed to provide the number of work orders or projects cancelled in total or by company and did not provide any of the information requested in the JCG's discovery request JI-2-03. Therefore, the JCG has not been able to assess whether the costs written-off for cancelled construction work were appropriately expensed to accounts that were inputs to the AEP East Companies' 2022 ATRR calculations. In addition, it is not clear whether any of the written-off costs for the American Electric Power Service Corporation of $36,995 were billed to the AEP East Companies and included in the AEP East Companies' 2022 ATRR calculations. Given AEP East's failure to provide the requested information on cancelled construction work, the JCG is unable to determine whether the cancelled project costs should be recovered.

Therefore, the JCG challenges the AEP East Companies' inclusion of the write-offs for cancelled construction work in the AEP East Companies' 2022 ATRRs on the basis that AEP East has failed to provide supporting documentation to justify the AEP East Companies' accounting for the write-offs.

Response:
The Company does not agree with this Preliminary Challenge. While responding to JI-1-3, the Company indicated that, because of the volume of activity it would provide the information that is available for a sample of projects to be selected by the Joint Customer Group (JCG); however that was not forth coming from the JCG 's consultants. For the purposes of this Preliminary Challenge please see JCG-2022-PC-16 Attachment 1 for the available requested information about write offs that exceed $50K. It should be noted that the subtotal of these projects is over $7.9 million dollars. This amount exceeds the amount in this challenge due to debits to the 107 Account that are included in the total write offs.
The count of projects making up the write-offs in 2022 is shown below:

GLBU		**Project Count**
120	Indiana Michigan Pwr Co - Tran	18
150	Appalachian Power Co - Trans	15
160	Ohio Power Co - Transmission	45
180	Kentucky Power Co - Trans	6
380	AEP Ohio Trans Co	30
383	AEP West Virginia Trans Co	4
384	AEP Kentucky Trans Co	1
385	AEP Indiana Michigan Trans Co	8
Total		**127**

Regarding charges from AEPSC, $32,748 were charged to Account 560 in Ohio Power Transmission, and $301 was charged to the same Account for AEP Ohio Transmission Company. These were primarily labor and benefit charges. This information was derived from JI-1-3 Attachment 1.
Since 2022, the Company has been improving its procedures to ensure the timely, initiation, documentation, and approval of write-offs of projects. This effort has been in part due to concerns raised by the intervenors. Therefore, this improvement has resulted in the approximately $7.8 million in write offs noted in this Preliminary Challenge. The impact of this effort will bring these balances up-to-date, and the Company expects this to be an anomalous situation for 2022, with the level of these adjustments decreasing in subsequent years.
Regarding the reasons for the write-offs of specific projects, in many cases it is simply not known. Due to the passage of time, a lot of the institutional knowledge regarding the reasons for cancellation of specific projects has been lost because of employees involved in those projects leaving the company. However, because the companies' process for determining the most prudent method of addressing the need underlying a project is iterative, as projects incur costs during the development/design phase, better alternatives to meet a need may arise that render earlier proposed solutions obsolete. In these cases, while the Company is moving towards the most prudent solution, there will be costs that, while incurred in good-faith, are no longer necessary because a better alternative cannot utilize the previously performed work. Thus, while the Company may not be able to specify exactly why a solution was discarded, the overall effect is the development of best, prudent alternatives to meet the transmission need. Because of this, the Company believes that the recovery of these costs is permitted in the formula rates.

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Data Request JCG-2022-017:

In reference to AEP East's response to JI-1-04 and "JI-1-04_Attachment_1," AEP East was asked to provide details and supporting information for "each of the OpCos and TransCos if the company had any one-time reclassifications or write-offs from FERC Account 183, Preliminary Survey and Investigation Charges ("PSIC") or FERC Account 107, Construction Work in Progress ("CWIP") (with the amounts of each credit specified) to FERC O&M or A&G accounts or other account (the offsetting debits with the FERC account number and amounts of each debit specified) related to construction or PSIC costs for certain scopes of construction work or feasibility studies that were not pursued for abandoned, cancelled, postponed or rescoped CWIP projects or PSIC studies in 2022."

In response AEP East stated "[p]lease see the Company's response to Date Request JI-1-3 for a discussion of write-offs from account 107. Regarding account 183, the Company generally does not use this account for Operating Company transmission business units or Transmission Companies. The activity that is recorded in this account for Transmission is not related to Preliminary Survey and Investigation Activity. The balances shown in account 183 are associated with generation, and activity in the transmission BU's is minimal and cleared out in most months." In addition, AEP East stated "[p]lease see JI-1-4 Attachment 1 for the functional ledger balances of these accounts, which demonstrate the balances and activity associated with Generation Projects. This attachment also shows a summary of the balances for the AEP East Transmission Companies; for these Companies the balances are minimal as well. The source of most Transmission activity in these accounts is the AEP Service Corporation billing process that clears charges to the Operating and Transmission Companies. These amounts, which are immaterial, are a function of this process and do not represent actual PS&I charges incurred on behalf of these business units; to remove them from this account they are expensed each month to account 5660000 or 1861060 for the East Operating Companies, and 9230003 for the East Transmission Companies."

The supporting spreadsheet for the "JI-1-04_Attachment_1" provides a listing of entries made to Account 183 for each AEP East Company with descriptions of entries, such as, "AEPSC Bill – Services Rendered," "Journals from closing," or "Reclass miscellaneous labor accrual accounts specified by ledger group." For the entries identified as applicable to each company's transmission function, there is no information provided as to the reason for each entry and the contra FERC account for each entry. Therefore, the JCG is unable to evaluate the amount of Account 183 costs that were cleared to accounts used as inputs to the AEP East OpCos' and AEP East TransCos' 2022 ATRRs, the nature and purpose of the costs, and whether they apply to each company's transmission operations. AEP East's statements that the costs cleared through Account 183 "are a function of the AEP Service Corporation billing process and do not represent actual PS&I charges" but are Account 183 costs cleared to "account 5660000 or 1861060 for the East Operating Companies, and 9230003 for the East Transmission Companies." AEP East has failed to identify the amount of and reasons for the Account 183 costs, why they are applicable to the AEP East OpCos's and AEP East TransCos's transmission operations, and has failed to provide justification for the inclusion of these costs as inputs to the AEP East Companies' 2022 ATRR calculations. Therefore, the JCG challenges the inclusion of these costs in the 2022 AEP East Companies' ATRR calculations.

Response:
The Company does not agree with this Preliminary Challenge. The transmission business groups for both AEP's operating companies and transmission-only companies do not, as a rule, utilize Account 183. The activity that is recorded in this account for transmission is not related to Preliminary Survey and Investigation Activity. The balances shown in Account 183 are associated with generation, and activity in the transmission BU's is minimal and cleared out in most months. See JCG-2022-PC-17 (JI-1-04 Attachment 1), tab 'PT of T Activity' for the transmission functional write offs of this account. The source of most Transmission activity in these accounts is the AEP Service Corporation billing process that clears charges to the operating and transmission companies. These amounts, which are immaterial, are a function of this process; to remove them from this account. they are expensed each month to account 566000 or 1861060 for the East Operating Companies, and 9230003 for the East Transmission Companies.

While the Company does not agree with this Preliminary Challenge, due to their immateriality the Company will agree to adjust the revenue requirement for each indicated subsidiary in a method consistent with the protocols of the PJM formula rates.

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Set PC-1 of Data Requests

Data Request JCG-2022-018:

In reference to AEP East's response to JI-1-19 and "JI-1-19_Attachment 1," AEP East provided a spreadsheet with "a roll-forward of the AEP prepaid pension asset for 2022" for the AEP East OpCos. Two reclass entries are listed on the spreadsheet (i) reclass of $(28,200,775.66) for Kentucky Power Company and (ii) a reclass of $24,071,403.33 for Wheeling Power Company. AEP East's response does not explain the reason for each reclass entry and does not provide supporting information regarding the calculation of the reclass entry, the associated FERC account(s) for recording each reclass entry, and how each reclass entry impacts inputs to the 2022 Kentucky Power Company and Wheeling Power Company ATRR calculations. Therefore, given the lack of explanation and supporting information, the JCG challenges the pension inputs for Kentucky Power Company and Wheeling Power Company.

Response:
The Company disagrees with the Preliminary Challenge. The reclass entries referenced in the question are related to moving employee benefit balances associated with Kammer retirees to AEP Generation Resources (AGR), and Mitchell Plant employees and retirees to Wheeling power (WPCO) in preparation of the sale of Kentucky Power (KPCO).

When Kammer Plant was transferred to KPCO in 2014 as a result of Ohio deregulation, the existing retirees for Kammer remained on AGR where they had originally retired. The active employees operating Kammer Plant transferred to KPCO in 2014 with the plant. When Kammer Plant was shut down and the employees retired, the employees then became retirees of KPCO since that was their final employer at retirement. This reclass in 2022 was to move the small population of Kammer retirees off KPCO to AGR since Kammer legacy benefit costs were not part of the sale.

Mitchell Plant was moved from KPCO to WPCO to prepare for the sale of KPCO, so all active and retired employee benefits were reclassified with the plant.

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Data Request JCG-2022-019:

The AEP East responses to JI-2-21.b. & JI-2-21 Attachment 1.xlsx have not resolved the all of the JCG's concerns related to APCo's Prepaid Leases. AEP East did not provide any supporting documentation, including copies of the agreements, and complete copies of the journal transactions which were the basis for the recording of the $216,842.18 prepaid lease amount for BU140, in "LEA242RCL" of the total $439,717.31 Prepaid Lease amount and the original transactions which reflect both the FERC Accounts "debited" and "credited," which had the Excel Column J, Explanation of "Debit balance in 2420504 account is reclassed to 1650023 and will auto-reverse. This balance is attributable to agreements paid in advance." The JCG challenges the $216,842.18 amount which was recorded through "LEA242RCL" until such time as AEP East provides the supporting documentation requested and has time to fully review such documentation.

Response:
The Company disagrees with this Preliminary Challenge. Please see JCG-2022-19 Attachment 1 for the 2420504 Account reconciliation for APCO for December 2022. This details the payments balance being reclassed to the 1650023 Account. Also please see JCG-2022-19 Attachments 2 - 15 for related agreements for those payments and a copy of the auto-reversing journal entry.

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Data Request JCG-2022-020:
AEP East's response to JI-2-48, including JI-2-48_Attachment 1.xlsx, states: "When asset retirement obligations were established for asbestos abatement, the company determined that asbestos removal was generally included in depreciation rates, as removal cost. Since it was already provided for in rates, the company recorded a debit to account 108 for the cumulative effect at adoption and for ongoing monthly ARO depreciation - continuing until new rates are implemented which exclude asbestos removal costs from depreciation and include them as ARO in cost of service." However, the response did not state in what FERC account(s) the ARO annual depreciation and Accumulated depreciation "deferral" was recorded. The JCG is concerned that either the "deferral" or other associated costs/expenses including ADIT might be included in accounts which are included in the ATRR. The JCG challenges the potential inclusion of ARO depreciation, accumulated depreciation, ADIT, and associated costs/expenses in the transmission formula rate until AEP East can provide supporting documentation and workpapers (in fully functional Excel format) which supports that none of the ARO depreciation, accumulated depreciation, ADIT, or any other associated costs/expenses.

Response:
The Company disagrees with this Preliminary Challenge. The Company's ARO depreciation expense is deferred to balance sheet account 1080013. This account is picked up in the formula under General Plant.
Until a jurisdiction includes ARO expense in cost of service rather than a component of removal cost in depreciation, the ARO depreciation expense will continue to be reclassified to 1080013. When a jurisdiction includes ARO expense in cost of service rather than a component of removal cost in depreciation, the accumulated balance recorded in account 1080013 will be transferred to account 1080011. Refer to 'JCG-2022-020 Attachment 1' for the company's entries to 1080013.
The book to tax basis difference related to ARO assets are recorded in FERC Account 282. This balance can be seen on WS B-1 - Actual Stmt AF Line 5.08 "BK PLANT IN SERVICE-SFAS 143-ARO". The ADFIT included on that line has a balance equal to 21% of the deferral of book depreciation for ARO.

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Data Request JCG-2022-021:

The AEP East responses to JI-2-57.b. & JI-2-57 Attachment 2.xlsx have not resolved the all of the JCG's concerns related to IM TransCo's Prepaid Leases. AEP East did not provide any supporting documentation, including copies of the agreements, and complete copies of the journal transactions which were the basis for the recording of the $19,942.41 prepaid lease amount for BU385, in "LEA242RCL" of the total $52,984.06 Prepaid Lease amount and the original transactions which reflect both the FERC Accounts "debited" and "credited," which had the Excel Column J, Explanation of "Debit balance in 2420504 account is reclassed to 1650023 and will auto-reverse. This balance is attributable to agreements paid in advance." The JCG challenges $19,942.41 amount which was recorded through "LEA242RCL" until such time as AEP East provides the supporting documentation requested and has time to fully review such documentation.

Response:
The Company disagrees with this Preliminary Challenge. Please see JCG-2022-21 Attachment 1 for the 2420504 Account reconciliation for IM Transco for December 2022. This details the debit balance being reclassed to the 1650023 Account. Also please see JCG-2022-21 Attachments 2 - 5 for the related agreements for those payments and a copy of the auto-reversing journal entry.

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Data Request JCG-2022-022:

The AEP East responses to JI-2-60.b. & JI-2-60 Attachment 1.xlsx have not resolved the all of the JCG's concerns related to OH TransCo's Prepaid Leases. AEP East did not provide any supporting documentation, including copies of the agreements, and complete copies of the journal transactions which were the basis for the recording of the $42,156.91 prepaid lease amount for BU380, in "LEA242RCL" and the original transactions which reflect both the FERC Accounts "debited" and "credited," which had the Excel Column J, Explanation of "Debit balance in 2420504 account is reclassed to 1650023 and will auto-reverse. This balance is attributable to agreements paid in advance." The Copy of the Lease Agreement provided made no reference to the "Bellaire Laydown," which is what is referenced in JI-2-60 Attachment 2.xlsx. The JCG challenges $42,156.91 amount which was recorded through "LEA242RCL" until such time as AEP East provides the supporting documentation requested and has time to fully review such documentation.

Response:
The Company disagrees with this Preliminary Challenge. Please see JCG-2022-22 Attachment 1 for the 2420504 Account reconciliation for OH Transco for December 2022. This details the debit balance being reclassed to the 1630023 Account. Also please see JCG-2022-22 Attachments 2 - 8 for the related agreements for those payments and a copy of the auto-reversing journal entry.

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Data Request JCG-2022-023:

The AEP East responses to JI-2-63.b. & JI-2-63 Attachment 2.xlsx have not resolved the all of the JCG's concerns related to WV TransCo Prepaid Leases. AEP East did not provide any supporting documentation, including copies of the agreements, and complete copies of the journal transactions which were the basis for the recording of the $12,379.30 prepaid lease amount for BU383, in "LEA242RCL" of the total $58,614.58 Prepaid Lease amount and the original transactions which reflect both the FERC Accounts "debited" and "credited," which had the Excel Column J, Explanation of "Debit balance in 2420504 account is reclassed to 1650023 and will auto-reverse. This balance is attributable to agreements paid in advance." The JCG challenges the $12,379.30 amount which was recorded through "LEA242RCL" until such time as AEP East provides the supporting documentation requested and has time to fully review such documentation.

Response:
The Company disagrees with the Preliminary Challenge. Please see JCG-2022-23 Attachment 1 for the 2420504 Account reconciliation for WV Transco for December 2022. This details the debit balance being reclassed to the 1650023 Account. Also please see attached JCG-2022-23 Attachments 2 - 6 for the related agreements for those payments and a copy of the auto reversing journal entry.

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Set PC-1 of Data Requests

Data Request JCG-2022-024:

AEP East has inappropriately included ADIT associated with contributions in aid of construction ("CIAC") in the AEP East 2022 ATRRs. AEP East response to JI-2-68 subpart (v) the justification for including CIAC related to specific customers in the "transmission" EOY column of: "The referenced ADIT items arose due to transmission activities and have been recorded on the Companies' transmission functional books. As contemplated in the Settlement in Cases ER17- 405 and ER17-406, the Companies use the transmission functional books to determine what ADIT is used in the formula rate calculation," is unpersuasive. In the Settlement in Cases ER17-405 and ER17-406, the transmission customers never "agreed to," "contemplated," or "anticipated" the inclusion of items which FERC has previously provided guidelines to be excluded from FERC jurisdictional rates such as CIAC and all the associated costs/expenses, which would include ADIT, to be allocated or included in the ATRR or PTRR due to the Companies use of transmission functional books. The use of transmission functional books or the accounting from using the transmission functional books does not drive ratemaking. FERC has specifically stated: "The Commission stressed, as it long has, that accounting does not dictate ratemaking." AEP East's inclusion of these amounts in rate base is contrary to Commission precedent, violates the fundamental principle that when the transmission formula rate functionalizes ADIT to rate base based on whether the underlying assets, expenses and revenues were included in rates the CIAC ADIT should also be excluded from rates, and does not match cost burdens with benefits received. Therefore, the JCG challenges the inclusion of the CIAC ADIT amounts in the transmission formula rates ATRR and PTRR, which have been generated by the usage of the transmission functional books accounting.
[FOOTNOTE] Ameren Corporation 147 FERC 61,225 at P 37; Order Docket Nos. AC11-46-002 & AC11-46-003: Entergy Services, Inc., 130 FERC ¶ 61,247, at P 23 (2006); North Penn Gas Co., 13 FERC ¶ 61,084, at 61,174 (1980).

Response:
The Company disagrees with the Preliminary Challenge. Both the construction costs associated with reimbursable projects and the CIACs are accumulated in Account 107 and ultimately transferred to Account 101, resulting in a net zero balance in Account 101. Therefore, ADIT associated with each item must be recognized for consistency. Including the ADIT associated with the project costs, while excluding the corresponding ADIT associated with the CIAC, would overstate the amount of ADIT associated with the entire transaction.
Further, FERC has rejected the argument that CIAC-related ADIT should not be included in rate base in a number of orders in which FERC held that CIAC-related ADIT may be included in the public utility's annual transmission revenue requirement in accordance with the utility's formula rate template. Specifically, FERC explained that as a general matter, it does not have a policy of precluding the inclusion of CIAC-related ADIT to be recorded in Account 282 (Accumulated deferred income taxes – Other property) and that if the public utility's formula rate template

contains Account 282, it is permissible for the public utility to include CIAC-related ADIT in its annual transmission revenue requirement. *See, e.g., Ameren Illinois Co.*, 169 FERC ¶ 61,147 at PP 18-21 (2019) (stating that the Commission did not prohibit the inclusion of CIAC-related ADIT recorded in Account 282 in the ATRR); *Ameren Illinois Co.*, 167 FERC ¶ 61,247 at P 32 (2019) ("Regarding CIAC-ADIT, we similarly find this to be a collateral attack on the rate itself" and that the Commission did not prohibit the inclusion of CIAC-related ADIT in Accounts 282 and 283"); *PJM Interconnection*, 167 FERC ¶ 61,083 at P 35 (2019) (finding that ADIT related to the gross-up of ADIT was properly included in rate base per the formula rate template and denying the utility's ability to include CIAC-related ADIT in rate base would have resulted in an improper directive to change the utility's formula rate template). AEP's approved formula rate permits the recovery of CIAC-related ADIT in Account 282, and this challenge is a collateral attack on AEP's approved formula rate.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-025:
AEP East's response to JI-2-72 subpart (i) is vague regarding "These correcting adjustments and entries were necessary to align the accounting with state retail ratemaking treatment of the incurred cost of removal deduction as a flow-through item" [emphasis added]. The JCG is concerned that AEP East has made accounting adjustments for the "state retail ratemaking treatment of the incurred cost of removal deduction as a flow-through item" in the transmission formula rate. These COR tax regulatory treatment corrections for "retail accounting treatment" should not impact the transmission formula rates. FERC has specifically stated: "The Commission stressed, as it long has, that accounting does not dictate ratemaking." Therefore, the JCG challenges the inclusion of the COR tax regulatory treatment corrections in the transmission formula rates required by the retail commission. (See also JI-1-15 and JI-1-15 Attachment 1.)
[FOOTNOTE] Id.

Response:
The Company disagrees with the Preliminary Challenge. The journal entry that is referenced was not recorded to the "actuals" ledger and therefore had no impact on the FERC Form 1 balances and as a result did not have an effect on transmission formula rates for the rate year subject to this preliminary challenge.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-026:

AEP East's response to JI-2-76, JI-2-76 Attachment 1.xlsx, and JI-2-76 Attachment 2.xlsx is very vague by stating: (a) "The purpose and reason for the entry is to correct excess amortization for non-transmission jurisdictions that was incorrectly amortized in prior periods" for APCO - G years 2019 - 2021, and (b) "During the review of the AEP Federal consolidated income tax payable it was discovered that credits related to the 2014 carryback return filed in 2020 were inadvertently reclassed from the deferred tax inventory into the payable" for APCO - T and I&M - N. AEP East did not provide any supporting documentation, workpapers and copies of the "original" transactions which are the bases for either (a) the "excess amortization for non-transmission jurisdictions" for APCO - G for the period 2019 - 2021, or (b) the 2014 carryback credits return filed in 2020 for APCO - T and I&M - N. The JCG is unable to determine whether these prior period adjustments have been properly recorded and whether they should or should not have an impact on the transmission rates. Therefore, until AEP East provides all the supporting documentation, workpapers, and copies of the original transactions which are the bases for these correction transactions, the JCG challenges the inclusion of these Prior Period Adjustments for both: (a) the prior period error correction related to excess amortization for non-transmission jurisdictions (APCO - G) and (b) the 2014 carryback credits return filed in 2020 for APCO - T and I&M - N.

Response:
The Company disagrees with this Preliminary Challenge.
(a). The journal entry in question for this part does not impact the FERC Transmission Formula Rate. First, the journal entry is on the generation functional books of APCO and therefore does not impact the transmission function. Second, as described in the preliminary challenge, the entry relates to "non-transmission jurisdictions". The journal entry in question on the books of APCO-Generation was to record a life-to-date true-up of the amortization of excess ADFIT for the jurisdictional balances for Virginia Street Lighting, FERC Generation Wholesale, and Distribution Interconnection and Local Delivery Service Agreement. As shown in JI-2-76_Attachment_1, the entry to the Virginia Street Lighting amortization was to correct for an over-amortization of the excess ADFIT balance. Also shown in JI-2-76_Attachment_1, the FERC Generation Wholesale and Distribution Interconnection and Local Delivery Service Agreement portion of the entry was to correct the amortization that was recorded in 2019 and 2020. See JCG-2022-026_Attachment 1 for a breakout of the journal entry by jurisdiction and the original entry that was corrected.
(b) The journal entry in question for this part relates to a return filed in 2020 and income tax credits that were carried back and utilized in the 2014 tax year on that tax return. In the original journal entries to account for that carryback, the amount of tax credits utilized was overstated and as a result, the tax credit carryforward reflected in FERC Account 190 was reduced and moved to the current tax payable account (FERC Account 236) more than it should have been for the amount of

credits actually carried back and utilized. The journal entry for I&M-N was recorded to the Nuclear functional books of I&M and therefore have no impact on FERC Transmission Formula Rates. See JCG-2022-026_Attachment 2 for the incorrect portion of the original journal entry and the correcting journal entry in question.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-027:
AEP East in response to JI-2-95, states that the Company has recorded "Regulated capital lease interest expense hitting O&M accounts has been reclassed to account 9310005 since 2019. This process changed in 2QTR 2022 based on FERC's directive." AEP East did not provide any supporting documentation or cites to the FERC directive to which the Company was referencing that would permit the imputed regulated capital lease interest expense for what appears to be related to production fleet services to be recorded in FERC Account No. 931, when the imputed interested related to production fleet services would have been recorded to FERC Account No. 184 - Clearing Accounts and then cleared to potentially to production FERC Account No. 557, Other Expenses or Account 431 – Other Interest Expense. The JCG challenges the inclusion of this imputed regulated capital lease interest expense for the production fleet services in FERC Account No. 931 until AEP East provides the FERC cite(s) to which the Company has relied upon for its position and the JCG has had the appropriate time to review it and respond.

Response:
The Company disagrees with this Preliminary Challenge. Fleet leases are subject to the fleet allocation process where the costs are assigned to various capital and expense accounts, based upon the nature of services provided by the users of the fleet assets. Given the large number of fleet leases, the Company follows the interest component through the fleet allocation process and reclassifies any charges recorded as expense to the interest expense account. Fleet services all aspects of utility operations and it is appropriate to record associated expenses to Account 931. Please see JCG-2022-027 Attachment 1 for Application of ASC 980 to lease accounting under ASC 842, JCG-2022-027 Attachment 2 for AEP West 1999 Formal Challenge Response, and JCG-2022-027 Attachment 3 for Classification of Interest Component on Finance Leases.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-028:

In reference to the attachment "JI-2-22 Attachment 1," Column "ABM Act," the following entries and associated totals are related to distribution activities and were inappropriately included in the tariff as "transmission related." The JCG challenges the inclusion of the following distribution expenses as transmission expenses.
a.: 210-Engineer & Design Distribution Line Facilities in the amount of $409.68.
b.: 214-Construct Distribution Line Facilities in the amount of $270,741.86.
c.: 251-Read Billing Meters in the amount of $12,213.01.

Response:
The Company disagrees with this Preliminary Challenge. Per review of the attachment JI-2-22 Attachment 1, these costs were recorded in account 9302006 and were not classified as transmission, so none of these costs were included in the formula rate calculations.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-029:

In reference to AEP East's response to JI-2-23, AEP East indicates that it recorded repairs for I&M's Rockport Plant to Account 107. AEP East then filed an insurance claim, in the amount of $3,156,980, for such repairs and "the original expenditures are then moved out of the original accounts and recorded to the Insurance Receivable account (FERC account 174)." It is unclear why repair expenses were being recorded in a construction work in progress account rather than to a production expense account. This accounting treatment caused I&M to over accrue AFUDC on construction projects that should have been expensed. For the foregoing reasons, the JCG challenges (i) the over accrual of AFUDC on these construction projects that should have been expensed, including the amounts moved out and any residual expense amounts related to the Rockport Plant that remained in Account 107 and (ii) any expenses related to the Rockport Plant that were ultimately moved out and included in expense accounts included in the transmission formula rate.

Response:
The Company disagrees with this Preliminary Challenge. These costs were production related and do not impact the transmission rate.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-030:

In each of the following responses, AEP East indicates that it has recorded retail rate case expenses and an integrated resource plan as "100% Transmission Specific." AEP has failed to provide the associated dockets with the following expenses or provide the justification as to how they are directly related to transmission. For the foregoing reasons, the JCG challenges these expenses until AEP East can provide this information and justification.
a.: Attachment JI-2-29_Attachment 1 - I&M - Indiana Rate Case - $244,340.05
b.: Attachment JI-2-29_Attachment 1 - I&M - Integrated Resource Plan Filing - $21,808.82
c.: Attachment JI-2-29_Attachment 1 - I&M - Michigan Rate Case - $25,664.37
d.: Attachment JI-2-36_Attachment 1 - KY - 2020 - Kentucky Power Base Case 36,081.55
e.: Attachment JI-2-36_Attachment 1 - KPCo - 23 KYP Base Rate Case Filing- $8,365.24
f.: Attachment JI-2-36_Attachment 1 - KPCo - AEPSC KY Power Ebon Case - $3,323.56
g.: Attachment JI-2-36_Attachment 1 - KPCo - IRP Plan - $340,480.95
h.: Attachment JI-2-36_Attachment 1 - KPCo - Kentucky PSC Investigation - $6,508.46
i.: Attachment JI-2-49_Attachment 1 - OPCo - This was inadvertently classified as Miscellaneous on Form 1, should have been classified under PUCO charge for funding the cost of hearing - $134,949.31
j.: Attachment JI-2-49_Attachment 1 - Ohio Power - This was inadvertently classified as NEP Submetering Complaint on Form 1, should have been classified under Miscellaneous Items - < $25K - $963.69
k.: APCo's "WS F Misc Exp" tab, Account 928, Line 15, Col. (E) - 100% Transmission Specific in the amount of $482
l.: APCo's "WS F Misc Exp" tab, Account 928, Line 16, Col. (E) - 100% Transmission Specific in the amount of $7
m.: APCo's "WS F Misc Exp" tab, Account 928, Line 17, Col. (E) - 100% Transmission Specific in the amount of $204,679

Response:
The Company disagrees with this Preliminary Challenge.
A. Indiana Cause No. 45235, Cause No. 45576, Cause No. 45933
B. No docket number for the Indiana IRP because they are not filed, only submitted. Michigan IRP is U-20591.
C. Michigan Docket U-21461, U-18370
D. Kentucky Case No. 2020-00174
E. Kentucky Case No. 2023-00159
F. Kentucky Case No. 2022-0087
G. Kentucky Case No. 2023-00092 and Case No. 2019-00443
H. Kentucky Case No. 2021-00370

I. OPCO PUCO charge represents the annual fee related to annual Long-Term forecast report filing with PUCO, which is calculated by the forecasts provided in the forecast report and total energy. This is the way the PUCO recovers the cost of the hearings and reviews of utility long term forecasts. Therefore, there is no docket number associated with this expense.

J. Amount represents miscellaneous general charges with no assigned docket number.

K. Amount represents miscellaneous general charges with no assigned docket number.

L. Amount represents miscellaneous general charges with no assigned docket number.

M. Amount represents miscellaneous general charges with no assigned docket number.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-031:

When the JCG inquired about the internal controls and procedures related to the Liberty acquisition of the Kentucky Companies in JI-2-79 and JI-1-28, the JCP specifically requested "Copies of AEP's internal controls and procedures (e.g. memorandums, timekeeping guidance etc.) to track costs to achieve the merger/transaction as originally requested." AEP East provided a limited response that indicated that "AEP's procedure for transaction cost tracking is to establish a unique work order (work order N100NICK01) and provide it to employees to track costs related to the proposed acquisition." However, this response does not indicate what types of costs (i.e. consulting services, attorneys, executive and employee labor, administrative and general expenses, any amounts owed to Liberty when the transaction did not go through etc.) were considered part of the transaction, which should have been outlined in memorandums and timekeeping guidance to employees. It is also unclear whether this work order was established at the operating company level (i.e. KPCo and KYTransCo) or at the service company level (i.e. AEPSC). Furthermore, AEP East discloses that a work order was established but does not identify the FERC account where the work order amounts were recorded or on what entities books they reside. The JCG assumes that costs were borne at all of these entities and should have been excluded from transmission rates. The JCG challenges AEP East's treatment of these costs from November 21, 2019 (i.e. date the work order was established) to present, until further information can be provided to ensure AEP East in is in compliance with FERC's 2016 Policy Statement on Hold Harmless Commitments.

Response:
The Company disagrees with the Preliminary Challenge. The work orders established to track costs related to the Liberty acquisition of the Kentucky companies were setup to charge all costs associated with the acquisition to AEP Parent Company. None of the costs to these work orders was billed to the AEP East companies and, therefore, were excluded from transmission rates.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-032:
In reference to AEP's responses to JI-1-59 and JI-2-90a, whereby AEP East indicates that it included the amortization of $185,400 of decommissioning study expenses to be amortized over 2 years in Account 923, the description suggests that this is a regulatory asset for retail rate purposes. I&M was told to amortize these decommissioning study costs over 2 years by a retail regulator. These decommissioning study costs should have been recorded in Account 524, Miscellaneous Nuclear Power Expenses as this is specific study related to nuclear operations and does not appear to be a regulatory asset approved by FERC. For the foregoing reasons the JCG challenges these expenses in Account 923.

Response:
The Company agrees with this Preliminary Challenge and will make an adjustment in the PTRR.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-033:
In reference to AEP East's response to JI-2-90b. and c., AEP East has recorded $416,059 of expenses to Account 923 related to "Kentucky's share of account 923 expense for Administrative and General costs related to Kentucky Power's joint owner agreement related to Mitchell Plant." These expenses are related to the operation of a generation facility and should be considered generation related. FERC has addressed this issue in audit FA15-6 of Georgia Power Company's treatment of expenses allocated from Southern Nuclear, which stated:[4][1]
Georgia Power contended that the nature of the activities performed by Southern Nuclear was akin to A&G-type work, and, therefore, that the costs were appropriately recordable in A&G accounts. However, **contrary to Georgia Power's contention, the costs supported production-related O&M activities that were neither general in nature nor benefited Georgia Power's overall operations. [bold added]** Moreover, as noted above, Georgia Power did not flow the allocated production costs through its wholesale transmission formula rate, including the costs that were recorded in Account 923. This demonstrates that Georgia Power did not treat the costs that were allocated by Southern Nuclear in the wholesale transmission formula rate as though the costs were A&G-type costs that were general in nature and recoverable in wholesale transmission rates as an overall cost of utility operations. Rather, Georgia Power properly identified and excluded the costs from other expenses recoverable through the wholesale transmission formula rate. **Accounting for the costs as A&G expenses would only be appropriate if the costs were not directly chargeable to specific utility operations. This was not the case for the nuclear production costs incurred by Southern Nuclear to operate and maintain Plants Hatch and Vogtle that were allocated to Georgia Power. [bold added]**
For the foregoing reasons, the JCG challenges the inclusion of these expenses in A&G accounts as they should be directly charged to a production expense account.

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[1] At 45.

Response:
The Company disagrees with this Preliminary Challenge. Wheeling Power, as the operator of Mitchell Plant, incurs A&G costs to support the Mitchell Plant. These costs are recorded to A&G accounts on Wheeling Power. These costs are then subsequently billed over to Kentucky Power, in those same A&G accounts, through the joint owner agreement related to the Mitchell Plant between Wheeling Power and Kentucky Power. Therefore, these costs are appropriately recorded to A&G accounts instead of production expense accounts.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-034:
In reference to AEP's responses to JI-1-37, JI-2-77 and "JI-2-77_Attachment_1" related to vendor detail for payments made directly by each OpCo and TransCo in FERC Accounts 560-573 and 920-935, it is unclear why the following trustee fees are being recorded to a transmission expense accounts rather than to Account 930.2. The JCG challenges the inclusion of the following expenses in transmission O&M accounts rather than to Account 930.2 :

a. Account 560 - BANK OF AMERICA in the amount of $102,271
b. Account 562 - BANK OF AMERICA in the amount of $25,551
c. Account 563 - BANK OF AMERICA in the amount of $37,245
d. Account 564 - BANK OF AMERICA in the amount $10
e. Account 566 - BANK OF AMERICA in the amount of $41,731
f. Account 568 - BANK OF AMERICA in the amount of $882
g. Account 569 - BANK OF AMERICA in the amount of $12,267
h. Account 569 - BANK OF AMERICA in the amount of $20
i. Account 570 - BANK OF AMERICA in the amount of 162,974
j. Account 571 - BANK OF AMERICA in the amount of $15,472
k. Account 573 - BANK OF AMERICA in the amount of $9,378

Response:
The Company disagrees with this Preliminary Challenge. These Bank of America costs are not trustee fees. The Companies' corporate credit card is managed through Bank of America, so these expenses primarily relate to employee expense reports for charges on the corporate credit card.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-035:
In reference to AEP's responses to JI-1-37, JI-2-77 and "JI-2-77_Attachment_1" related to vendor detail for payments made directly by each OpCo and TransCo in FERC Accounts 560-573 and 920-935, the following expenses appear to be associated with an economic development organization that should be considered community welfare and recorded to Account 426.1 - Donations which is defined as "This account shall include **all payments** or donations for charitable, social or **community welfare purposes**."

a. Account 921 - CENTRAL VIRGINIA PARTNERSHIP in the amount of $3,080
b. Account 921 - GREENBRIER VALLEY ECONOMIC DEV CORP in the amount of $1,053
c. Account 921 - HUNTINGTON AREA DEVELOPMENT COUNCIL int the amount of $7,371
d. Account 921 - JOINT INDUSTRIAL DEVELOPMENT AUTHORITY in the amount of $17,564
e. Account 921 - LYNCHBURG REGIONAL BUSINESS ALLIANCE in the amount of $15,795
f. Account 921 - MOUNT ROGERS DEVELOPMENT PARTNERSHIP in the amount of $7,898
g. Account 923 - INDIANA ECONOMIC DEVELOPMENT FOUNDATION in the amount of $10,000
h. Account 923 - NOBLE COUNTY ECONOMIC DEVELOPMENT CORP in the amount of $12,500

Response:
The Company agrees with this Preliminary Challenge that these economic development costs should have been recorded to Account 426.1.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-036:
In reference to AEP's responses to JI-1-37, JI-2-77 and "JI-2-77_Attachment_1" related to vendor detail for payments made directly by each OpCo and TransCo in FERC Accounts 560-573 and 920-935, the following expenses appear to be associated with advertising, news, media etc. and should be recorded to Account 930.1 - General advertising expenses and removed from the formula rate template.

a. Account 921 - HANNAH NEWS SERVICE-MIDWEST LLC in the amount of $7,969
b. Account 921 - JOURNAL COMMUNICATIONS INC in the amount of $7,064
c. Account 921 - KPC MEDIA GROUP INC in the amount of $1,253
d. Account 921 - SPELLMAN OUTDOOR ADVERTISING SERVICES in the amount of $60,095

Response:

NOTE:
The response to this question is considered Confidential or Highly Sensitive.

For access to this response, a signed Confidentiality Agreement is required.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-037:
In reference to AEP's responses to JI-1-37 and JI-2-77 related to vendor detail for payments made directly by each OpCo and TransCo in FERC Accounts 560-573 and 920-935, in "JI-2-77_Attachment_1," AEP East has included an entry "LORENE REKEWEG 1994 REVOC TRUST," in Account 560 in the amount of $7,212, it is unclear what a revocable trust has to do with operation supervision and engineering and appears that it should have been recorded to another FERC A&G account or excluded from rates. For the foregoing reasons, the JCG challenges the inclusion of this expense in Account 560 until additional information is provided.

Response:

NOTE:

The response to this question is considered Confidential or Highly Sensitive.

For access to this response, a signed Confidentiality Agreement is required.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-038:
In reference to AEP's responses to JI-1-37 and JI-2-77 related to vendor detail for payments made directly by each OpCo and TransCo in FERC Accounts 560-573 and 920-935, in "JI-2-77_Attachment_1," an entry entitled "HOH, DAVID M" in Account 560 in the amount of $100,000, based on the company's website[5][1] this expense appears to be related to retail services. For the foregoing reasons, the JCG challenges the inclusion of this expense in Account 560 rather than a distribution or customer expense account.

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[1] https://www.drenergysaverjerseyshore.com/about-us/meet-the-team/10232-david-hoh.htm

Response:
The Company disagrees with this Preliminary Challenge. This expense doesn't relate to retail services. This relates to a settlement over a disputed damage claim related to the Cabin Creek-Turner transmission line.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-039:
In reference to AEP's responses to JI-1-37 and JI-2-77 related to vendor detail for payments made directly by each OpCo and TransCo in FERC Accounts 560-573 and 920-935, in "JI-2-77_Attachment_1," the entry "NORTHERN INDIANA PUBLIC SERVICE CO LLC" in Account 560 in the amount of $18,796, it is unclear what NIPSCO, which is a natural gas distribution and electric distribution company, has to do with transmission operation supervision and engineering. For the foregoing reasons, the JCG challenges the inclusion of this expense in Account 560.

Response:

NOTE:
The response to this question is considered Confidential or Highly Sensitive.

For access to this response, a signed Confidentiality Agreement is required.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-040:
In reference to AEP's responses to JI-1-37 and JI-2-77 related to vendor detail for payments made directly by each OpCo and TransCo in FERC Accounts 560-573 and 920-935, in "JI-2-77_Attachment_1," the entry "YARD DOGS" in Account 562 in the amount of $166,800, it is unclear what services this company offers and how it relates to transmission. For the foregoing reasons, the JCG challenges the inclusion of this expense in Account 562 until additional information is provided.

Response:

NOTE:
The response to this question is considered Confidential or Highly Sensitive.

For access to this response, a signed Confidentiality Agreement is required.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-041:
In reference to AEP's responses to JI-1-37 and JI-2-77 related to vendor detail for payments made directly by each OpCo and TransCo in FERC Accounts 560-573 and 920-935, in "JI-2-77_Attachment_1," the entry "COBBLESTONE AT THE PRESERVE CONDOMINIUM" in Account 571 in the amount of $30,422, it is unclear what these expenses are related to and how they are associated with transmission. They appear to be directly related to a condominium/retail customer. For the foregoing reasons, the JCG challenges the inclusion of this expense in Account 571.

Response:

NOTE:
The response to this question is considered Confidential or Highly Sensitive.

For access to this response, a signed Confidentiality Agreement is required.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-042:
In reference to AEP East's response to JI-2-69 related to tab "WS B-2 - Actual Stmt. AG" tabs, Column H and I – Functionalization Average Transmission, AEP East did not provide detailed explanation and justification for including the following PROVS POSS REV REFDS in rate base for each of the following OpCo and TransCo items:

a. APCO - WS B-2 - Actual Stmt. AG, Column H, Line 2.11, PROVS POSS REV REFDS in the amount of $316,890.
b. I&M - WS B-2 - Actual Stmt. AG, Column I, Line 2.09, PROVS POSS REV REFDS in the amount of $(18,767)
c. I&M - WS B-2 - Actual Stmt. AG, Column I, Line 2.12, PROV FOR RATE REFUND-TAX REFORM in the amount of $622,752.
d. KPCo - WS B-2 - Actual Stmt. AG, Column H, Line 2.08, PROVS POSS REV REFDS in the amount of $123,452.
e. KgPCo - WS B-2 - Actual Stmt. AG, Column H, Line 2.04, PROVS POSS REV REFDS-A/L in the amount of $33,538.
f. OPCo - WS B-2 - Actual Stmt. AG, Column H, Line 2.06, PROVS POSS REV REFDS in the amount of $17,195.
g. WPCo - WS B-2 - Actual Stmt. AG, Column H, Line 2.07, PROVS POSS REV REFDS in the amount of $8,142.
h. AP TransCo - WS B-2 - Actual Stmt. AG, Column H, Line 2.03, PROVS POSS REV REFDS- A/L in the amount of $4,678.
i. IM TransCo- WS B-2 - Actual Stmt. AG, Column H, Line 2.04, PROV POSS REV REFDS in the amount of $936,363
j. KY Trans - WS B-2 - Actual Stmt. AG, Column H, Line 2.03, PROVS POSS REV REFDS in the amount of $70,684
k. OH Trans - WS B-2 - Actual Stmt. AG, Column H, Line 2.04, PROVS POSS REV REFDS in the amount of $1,428,821.
l. WV Trans - WS B-2 - Actual Stmt. AG, Column H, Line 2.03, PROVS POSS REV REFDS in the amount of $628,507.

AEP has inappropriately included ADIT associated with Prov Rate Refunds which are a result of the timing difference in which it is paid from PJM. As discussed in the following AEP West Order, the Commission required AEP to remove the impact of this ADIT. AEP East and AEP West have similar ADIT schedules and therefore there are no differences in which result in different treatment for AEP East.

The Commission stated that:

We find that, as discussed above and in accordance with the note in Worksheet C, because the underlying refund amounts associated with the ADIT asset recorded in Account 190 are not included in rate base, the associated ADIT asset and excess or deficient ADIT should not be included either. Again, the related ADIT must be excluded if the associated refund amounts are excluded from rate base. We direct AEP to exclude the ADIT asset that is related to refund amounts that are excluded from rate base.[6][1]

For the foregoing reasons, the JCG challenges AEP's inclusion of these ADIT items in transmission rates.

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[1] ER19-194 and ER18-195, American Electric Power Service Corporation, 178 FERC ¶ 61,208 at P 65.

Response:

The Company agrees with this Preliminary Challenge. AEP has corrected PROVS POSS REV REFD from 2019 through 2022 and refunds will be sent.

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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-043:
AEP East in response to JI-2-70 and JI-2-70 Attachment 1, the Company provided the details of FERC Account Nos. 228.2 - 228.4. When comparing JI-2-70 Attachment 1 to each of the six OpCos tabs "WS B-2 - Actual Stmt. AG," it appears that many of the OpCos have each included the Account 190 ADIT associated with certain employee benefit costs accumulated reserves accrued, in the determination of rate base, while not also including the underlying accumulated reserve accruals for such employee benefit costs as an Unfunded Reserve as a reduction to rate base. FERC addressed this issue by stating the following: "...Therefore, we find that the ADIT balance associated with the accrued reserves for employee benefit costs should be excluded from rate base..., except, e.g., to the extent that AEP has set an accumulated reserve accrual in a trust or other restricted external fund..."[7][1] Those certain employee benefit costs accumulated reserves accrued and the respective OpCos include the following; (a) the Incentive Comp Deferral Plan for APCO, I&M, KPCO, & OPCO; (b) all of the following: Supplemental Executive Retirement Plan, the Accrd Sup Exec Retir Plan Costs-SFAS 158, the Stock Based Comp-Career Shares, the Restricted Stock Plan, and the PSI- Stock Based Comp for I&M; and (c) finally, it appears that the Accrued Book Vacation Pay ADIT, (which the accrual reserve may be recorded to either FERC Account No. 242 or Account No. 132) for APCO, I&M, KPCO, & OPCO. Joint Customers challenge the inclusion of each of the employee benefit costs associated ADIT referenced above to be included in the transmission formula rates in each of the respective OpCos since the underlying reserves are not included in rates and per FERC's order in AEP West.

[1] Sw. Power Pool, Inc., 178 FERC ¶ 61,208, (2022) at P57.

Response:
The Company disagrees with this Preliminary Challenge. The order referenced in the above question does not apply to AEP East Companies. The ADIT is based on the accumulated expenses that are on the transmission books and flow through to the formula rates. The determination of the ADIT is based on the East Companies functional books that are based on the settlement.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-044:
In reference to AEP East's responses JI-1-41, JI-2-82 and JI-2-82_Attachment_1, the following assets appear to perform a distribution function. The JCG notes that AEP East has not identified the dollar value of each of the assets. The JCG challenges the following assets identified on the attachment by the columns "Operating Companies'," "Asset Name" and "Asset Type Name" and requests that AEP East provide the associated amounts with each. To the extent that AEP East disagrees with the challenge, the JCG requests a one-line diagram of each to resolve this issue.

a. Excel Row 5 - Ohio Power - TR 1 - 40 kV
b. Excel Row 6 - Ohio Power - 13.8 kV GND - 13.8 kV GND
c. Excel Row 13 - Indiana Michigan - TR GT - 34.5 kV GND
d. Excel Row 14 - Appalachian Power Company - TR-T1 - 138/13.09 25MVA LTC
e. Excel Row 18 - Appalachian Power Company - TR-1 - 46 kV
f. Excel Row 19 - Appalachian Power Company - TR1 - 68.8/13.09 25MVA LTC
g. Excel Row 21 Appalachian Power Company TR-T1 68.8/13.09 20MVA
h. Excel Row 22 Appalachian Power Company TR-T1 138/36.2 30MVA

Response:
a. - b. & d. - h. The Company agrees with the Preliminary Challenge. These assets are in a distribution station; therefore, an adjustment will be made in the next PTRR to remove the amounts from the Transmission Rates.
c. The Company disagrees with the Preliminary Challenge. The asset is located inside a Transmission substation where it accomplishes a number of transmission functions including, but not limited to, providing transmission level service to customers, providing transmission level service to municipalities and cooperatives, and providing transmission service.

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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-045:
In reference AEP East's response to JI-1-45 and JI-1-45_Attachment_1," tab entitled "Detail," Excel Row 66 – APCo - Account 566 - To write off remaining balances on BU 150 related to VA Environmental and Reliability (E&R) Costs in the amount of $21,905.00, the JCG requested detailed description of these costs, state whether these were a result of a state requirement and explain why they were being written- off. In AEP East's response to JI-2-85, AEP East stated, "This entry was to write off the remaining regulatory asset balances related to transmission costs deferred back in the years 2006-2009, which were then amortized through 2013 as the costs were recovered through the Environmental and Reliability surcharge." The JCG challenges the inclusion of this expense for the following reasons: (1) The balance should have been fully amortized and recovered at year-end 2013 and should have been written-off in 2013. (2) Recovery should have occurred, and the recovery mechanism was through the "E&R surcharge" in prior years and not the transmission formula rate and (3) These costs are out-of-period. APCo has failed to: (i) justify why it is proper to recover these costs in the 2022 ATRR, (ii) demonstrate that APCo didn't previously recover the costs through the surcharge, and (iii) demonstrate that APCo is authorized to include these costs in the ATRR; therefore, AEP East should expense the costs Account 426.5. For the foregoing reasons, the JCG challenges these expenses being included in AEP East's transmission formula rate.

Response:
The Company agrees with the Preliminary Challenge that these costs should have been expensed to Account 426.5 and excluded from the transmission formula rate.

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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-046:
In reference to AEP East's responses to "JI-1-51_Attachment_1," Excel Rows 10 & 11 related to the Breed Plant Site & Railroad South (Land Only) : I&M : 0110 in the amount of $16,149.88 and AEP East's response in JI-2-87, which stated "The transfer represents a portion of land in generation moved to general plant structure for a retirement to occur following demolition." Based on AEP East's response the plant (land) transfer is not justified as "in-service" plant or as used and useful general plant. AEP East's JI-2-87 response does not support recording land in Account 101 or as general plant. The JCG challenges this based on the fact that the transfer to Account 390 is not supported as being used and useful supporting transmission service, therefore land cost should be recorded in Account 121, Nonutility Property.

Response:
The Company disagrees with this Preliminary Challenge. The asset noted in JI-2-87 was not transferred to Account 101. The asset transferred between utility accounts and remains in Account 121, Nonutility property. See attached JCG-2022-046 Attachment 1.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-047:
In reference to AEP East's response to JI-2-88 and "JI-2-88_Attachment_2," Excel Row 6, MILITARY VETERANS RESOURCE CENTER – Account 560 in the amount of $587 is listed as sponsorship should be recorded to Account 426.1 – Donations and removed from the formula rate template as it's a nonoperating expense. For the foregoing reasons, the JCG challenges this expense being included in AEP East's transmission formula rate.

Response:
Company agrees with the Preliminary Challenge that this should have been recorded to Account 426.1 rather than Account 560. The Company will make an adjustment.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-048:
In reference to AEP East's response to JI-2-88 and "JI-2-88_Attachment_2," the following expenses appear to be associated with political activities which should be recorded to Account 426. 4 - Expenditures for Certain Civic, Political and Related Activities, or other non-operating expenses should be recorded in Account 426.5 and removed from the formula rate template.

a. Excel Row 7 - NATIONAL GOVERNORS ASSOCIATION - Account 930.2 in the amount of $24,308 - Annual Membership
b. Excel Row 14 - REPUBLICAN GOVERNORS ASSOCIATION – Account 930.2 in the amount of $60,770 - Annual Membership – The JCG also notes that this organization was utilized in the House Bill 6 bribery scheme in Ohio.[8][1]
c. Excel Row 15 - REPUBLICAN STATE LEADERSHIP COMMITTEE Account 930.2 in the amount of $14,335 - Annual Membership

For the foregoing reasons, the JCG challenges these expenses being included in the transmission formula rate.

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[1] https://ohiocapitaljournal.com/2024/04/19/firstenergy-gave-2-5m-to-gop-governors-dark-money-group-backing-dewines-2018-bid/

Response:
a. and b. The Company disagrees with this Preliminary Challenge. These two expenses were initially recorded on a voucher payment in Account 930.2 but were then subsequently reclassified to Account 426.5 on a separate journal entry. Please refer to JCG-2022-048 Attachment 1 which shows the reclass entry moving the expense to Account 426.5 on AEPSC business unit and also shows the subsequent credit allocated out to the individual affiliates. Therefore, these expenses were ultimately recorded in Account 426.5 and removed from the formula rate template.
c. The Company agrees with the Preliminary Challenge that the $14,335 annual membership fee to the Republican State Leadership Committee should have been recorded to Account 426.5 and removed from the formula rate template.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-049:
In reference to AEP East's response to JI-2-88 and "JI-2-88_Attachment_2," Excel Row 9, OHIO NEWSPAPER SERVICES INC, Account 566 in the amount of $2,045 – Advertising, appears to be associated with advertising, news, media etc. and should be recorded to Account 930.1. It is unclear how this expense is directly related to a transmission operating expense. For the foregoing reasons, the JCG challenges this expense until additional information can be provided by AEP East.

Response:
Company agrees with this Preliminary Challenge that this should have been recorded to Account 930.1 rather than Account 566, and an adjustment will be made.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-050:
In reference to AEP East's response to JI-2-88 and "JI-2-88_Attachment_2," Excel Row 11, OHIO STATE UNIVERSITY, Account 921- Annual Membership in the amount of $20,000, it is unclear what this membership is for and how it relates to the operating utilities. For the foregoing reasons, the JCG challenges this expense until additional information can be provided by AEP East.

Response:
The Company disagrees with this Preliminary Challenge. Please refer to JCG-2022-050 Confidential Attachment 1 which shows that this membership is for the Center for Operational Excellence at Ohio State University, which works to create a community of leaders to work better, faster and stronger. This organization offers many avenues for learning and connecting with the broader operational excellence community. Through its membership, AEP gathers actional insights from industry executives at Center for Operational Excellence events, taps into research findings focused on today's greatest challenges, and connects with other member organizations that span the manufacturing, supply chain, financial services, and utilities sectors to share best practices and common challenges.

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Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-051:
In reference to AEP East's response to JI-2-88 and "JI-2-88_Attachment_2," Excel Row 16, UNITED STATES CHAMBER OF COMMERCE, Account 930.2 in the amount of $46,249. The United States Chamber of Commerce was a leading lobbying spender[9][1] in the United States in 2023 and its publicly available 990 states, "Foreign and domestic policy experts, lobbyists, and communicators advance the issues that matter to our members by working with partners in business and government, influencing public policymaking, and participating in the public debate." Political lobbying should be recorded to Account 426.4 and removed from AEP East's transmission formula rate.
Additionally, AEP East has not sufficiently tied the significant expenses for its contributions to the United States Chambers of Commerce to direct ratepayer benefits. AEP East has provided no correlation to the direct benefits the customers are receiving from a national chamber of commerce organization or how that organization is driving positive benefits to the AEP East transmission customers or its service territory.
For the foregoing reasons, the JCG challenges the inclusion of this expense in AEP East transmission rate.

[1] https://rollcall.com/2023/01/23/u-s-chamber-dips-to-second-place-in-k-street-spending/

Response:
The Company disagrees with this Preliminary Challenge. Please refer to JCG-2022-051 Confidential Attachment 1 which shows the invoice for this membership. Per the invoice, 35% of contributions to the U.S. Chamber relate to lobbying. Please refer to JCG-2022-051 Attachment 2 which shows that Company recorded 35% of the invoice, or $105,000, to Account 426.4, which represented the lobbying portion of this membership.

AEP East ER-17-405 & 406 Formula Rate 2022 ATRR DR
FERC Docket No ER17-405-000 & ER17-406-000 2022 ATRR

Responses to Joint Customers
Set PC-1 of Data Requests

Data Request JCG-2022-052:
American Electric Power Service Corporation ("AEPSC") provided notification in the 2023 Annual Updates for the AEP East Operating Companies ("AEP East OpCos" or "OpCos") and for the AEP East Transmission Companies ("AEP East TransCos" or "TransCos") that the True-Ups of the AEP East OpCos' and AEP East TransCos' 2022 annual transmission revenue requirements ("ATRR") reflect the treatment of the Accumulated Deferred Income Taxes (ADIT) associated with federal Net Operating Losses ("NOL") to a stand-alone basis[10][1] rather than a consolidated basis.[11][2]

Appalachian Power Company ("APCO"), Indiana Michigan Power Company ("IM"), Kentucky Power Company ("KYPCO"), Kingsport Power Company ("KGSPT"), Ohio Power Company ("OPCO"), and Wheeling Power Company ("WPCO") are the AEP East OpCos. AEP Appalachian Transmission Company, Inc. ("APTCO"), AEP Indiana Michigan Transmission Company, Inc. ("IMTRANS"), AEP Kentucky Transmission Company, Inc. ("KYTRANS"), AEP Ohio Transmission Company, Inc. ("OHTRANS"), and AEP West Virginia Transmission Company, Inc. ("WVTRANS").are the AEP East TransCos. (A reference in this Preliminary Challenge to AEP East or AEP East Companies means collectively the AEP East OpCos and the AEP East TransCos.)

In response to Data Requests from the Joint Customer Group, AEP East provided information on how the treatment of federal NOL Carryforwards ADIT was implemented in the AEP East OpCos' and AEP East TransCos' 2022 ATRR and True-Up calculations by the inclusion of certain NOL ADIT ratemaking adjustments.[12][3]

The Joint Customer Group challenges the AEP East OpCos' and AEP East TransCos' treatment of ADIT associated with NOL Carryforwards ADIT and the implementation of that treatment in the 2022 ATRRs and True-Ups calculations via the Separate Return NOL Carryforwards ADIT ratemaking adjustments. The AEP East 2022 ATRRs and True-Ups calculations include two types of Separate Return NOL Carryforwards ADIT ratemaking adjustments: (1) ADIT adjustments to Accounts 1901001, 2821001, and 2831001 that increase rate base, and (2) amortization of protected excess[13][4] ADIT applicable to Separate Return NOL Carryforwards ADIT adjustments that reduce refunds to customers for excess ADIT amounts and increase the AEP East Companies' Income Tax Allowance ("ITA").

A. Background

AEPSC first provided notice of a change in the AEP East Companies' treatment of ADIT associated with NOL Carryforwards ADIT in the November 1, 2021 letters transmitting the AEP East OpCos' and AEP East TransCos' 2022 Projected Transmission Revenue Requirement ("PTRR") calculations filings.[14][5] Also, notice of this change was disclosed in the May 25, 2022 transmittal letters for the informational filings for the 2022 Annual Updates for the AEP East OpCos in Docket No. ER17-405-000 and for the AEP East TransCos in Docket No. ER17-406-000. As previously discussed, the AEP East Companies disclosed their treatment of ADIT associated with NOL Carryforwards ADIT in the transmittal letters for their 2023 Annual Update filings.[15][6]

1. OpCos' and TransCos' Accounting for Income Taxes

AEP East asserted that, while the AEP East Companies are included in the AEP System consolidated federal income tax return, for transmission formula rate purposes, the utilization of NOL Carryforwards should be evaluated using a stand-alone NOL Carryforwards method as it is the preferred ratemaking treatment. AEP East cited to the Commission's decision in Columbia Gulf Transmission Co. (23 FERC ¶ 61,396 (1983)) as support for its assertion. Also, AEP East asserted the Internal Revenue Code ("IRC") normalization requirements require utility ratemaking to apply a normalized method of accounting with respect to tax benefits associated with accelerated depreciation, NOL Carryforwards due to accelerated depreciation and Investment Tax Credits ("ITC").[16][7]

AEP East stated that the AEP East Companies' consolidated method for NOL Carryforwards used prior to the 2022 Annual Update followed the Generally Accepted Accounting Principles ("GAAP") treatment as opposed to the stand-alone treatment for ratemaking purposes. In addition, AEP East stated that deferred tax assets ("DTA") for NOL Carryforwards were not recorded on the AEP East OpCos' and TransCos' books, rather, the taxable losses were combined with other affiliates taxable income which when resulting in net taxable income did not require the recording of the DTA, or when resulting in a net taxable loss were recorded as an allocation on each member's books as a portion of the consolidated DTA.[17][8]

Also, AEP East stated each taxable income producing company within the AEP consolidated tax group pays cash to the AEP parent for their share of the current year's tax. The AEP parent then pays cash to each loss generating company for their portion of the loss generated to the extent that those losses can be offset by income of the income producing companies. For GAAP purposes, the cash paid to the loss generating companies reduced the NOL DTA on their books.[18][9]

In addition, AEP East stated that the stand-alone method used by AEP derives the NOL Carryforwards DTA asset from the jurisdictional revenues and cost of service of the utilities and excludes the impact of activity outside the scope of providing those FERC jurisdictional services.[19][10] AEP East claimed this methodology provides the tax savings attributable to the filing of a consolidated tax return consistent with the benefits and burdens test in Opinion No. 173.[20][11]

2. AEP East Companies' Implementation of Its Formula Rate Separate Return Method

To implement its separate return method in the AEP East 2022 ATRRs, the AEP East Companies included the separate return federal NOL Carryforwards ADIT ratemaking adjustments in Account 1901001 of Worksheet WS B-2 – Actual Stmt. AG. Also, the AEP East Companies computed ratemaking only "NOL Adjustments" for "protected" and "unprotected" ADIT deficiencies.[21][12] For the "protected" ADIT deficiencies, AEP East included ratemaking only "NOL Adjustments" on the Worksheet WS B-1 – Actual Stmt. AF in Account 2821001 and the "NOL Adjustments" for the "unprotected" ADIT deficiencies were reflected as ratemaking adjustments to Account 2831001 on Worksheet WS B-1 – Actual Stmt. AF. Under AEP East's separate return methodology, it computed separate return NOL Adjustments for Accounts 1901001, 2821001, and 2831001 on a total company basis. Those total company "NOL Adjustments," beginning of year ("BOY") and end of year ("EOY"), were entered onto Worksheets WS B-1 – Actual Stmt. AF and B-2 – Actual Stmt. AG, and the BOY and EOY adjustments were averaged and functionally allocated to Transmission. In addition, AEP East computed the 2022 Average Rate Assumption Method ("ARAM") amortization of the Account 2821001 Excess Deferred Tax on a total company and transmission only basis. The transmission only ARAM amortization was entered as an input to each AEP East Company's income tax calculation on either TCOS Line 119 for the OpCos or TCOS Line 102 for the TransCos.

Table 1: Total Company NOL Adjustments – As of December 31, 2021[22][13]

			As of December 31, 2021			
			NOL Adjustment: Debit/(Credit)			
			960Z	960F-XS	960F-XS	960F-XS
TOTAL Company	Consol NOLC as of 12.31.2021	Stand Alone NOLC as of 12.31.2021	1901001 - Rate Base	2821001 - Rate base	2831001 - Rate Base	410/411 - Excess Deferred Income Tax (Line 119)
IM	0	88,928,971	88,928,971	117,213,382	0	4,284,027
KYPCO	6,589,319	45,730,503	39,141,184	13,772,068	1,399,062	582,916
APCO	4,357,324	15,160,791	10,803,466	74,067,561	0	2,659,867
KGSPT	1,612,402	10,477,325	8,864,923	2,137,642	1,298,834	84,655
WPCO	1,179,760	2,142,444	962,684	0	0	0
OPCO	0	0	0	0	0	0
IMTRANS	0	85,354,968	85,354,968	68,281,711	0	78,475
KYTRANS	0	5,780,664	5,780,664	4,389,857	0	191
APTCO	268,711	2,206,294	1,937,583	0	104,963	0
OHTRANS	0	108,311,135	108,311,135	102,576,494	0	375,921
WVTRANS	0	49,901,671	49,901,671	40,643,782	0	2,422
Total	14,007,516	413,994,765	399,987,248	423,082,498	2,802,859	8,068,474

Table 1 identifies AEP East total company consolidated federal NOL carryforwards ADIT on December 31, 2021 (*see,* column labeled "Consol NOLC as of 12.31.2021") totaling $14,007,516. According to AEP East, these were the consolidated federal NOL carryforward ADIT balances that were recorded on the AEP East Companies' books in Account 190 on December 31, 2021.

Also, Table 1 identifies the AEP East total company separate return federal NOL carryforwards ADIT ratemaking adjustments on December 31, 2021 (*see,* column labeled "Stand Alone NOLC as of 12.31.2021") totaling $413,994,765. AEP East asserted the separate return amount on Table 1 represents the total company amount of federal NOL carryforwards ADIT that should be subject to allocation in the 2022 AEP East ATRR calculations. To achieve this result, AEP East includes the difference (*see*, column labeled "1901001 – Rate Base") between the "Consol NOLC as of 12.31.2021" and the "Stand Alone NOLC as of 12.31.2021" totaling $399,987,248 as a "NOL Adjustment" on each AEP East Company's inputs to 2022 ATRR on "Worksheet WS B-2 – Actual Stmt. AG," Column B, Per Books Balance As Of 12/31/2021, for Account 190, Accumulated Deferred Income Taxes.

In sum, on December 31, 2021, the AEP East Companies had federal consolidated federal NOL carryforwards ADIT of $14,007,516 recorded on their books but for purposes of computing the 2022 ATRR calculations the AEP East Companies have also included as the total company December 31, 2021 "NOL Adjustment" ratemaking inputs for Account 190 of $399,987,248.

In addition, Table 1 identifies the total company ADIT ratemaking only NOL Adjustments of $423,082,498 on December 31, 2021 (*see*, Account 2821001 – rate base") that were included on the AEP East Companies' Worksheet WS B-1 – Actual Stmt. AF for "protected" ADIT deficiencies included in Account 2821001 and the total company ratemaking only NOL Adjustments of $2,802,859 on December 31, 2021 (*see*, Account 2831001 – rate base") for "unprotected" ADIT deficiencies included in Account 2831001 on Worksheet WS B-1 – Actual Stmt. AF.

Table 2:Total Company NOL Adjustments – As of December 31, 2022[23][14]

			As of December 31, 2022			
			NOL Adjustment: Debit/(Credit)			
			960Z	960F-XS	960F-XS	960F-XS
OTAL mpany	Consol NOLC as of 12.31.2022	Stand Alone NOLC as of 12.31.2022	1901001 - Rate Base	2821001 - Rate base	2831001 - Rate Base	410/411 - Excess Deferred Income Tax (Line 119)
IM	0	42,763,766	42,763,766	108,936,254	0	7,894,292
KYPCO	0	39,687,268	39,687,268	14,721,610	0	188,308
APCO	0	72,040,691	72,040,691	71,617,926	0	1,986,621
KGSPT	0	14,742,126	14,742,126	912,133	256,302	6,878
WPCO	0	28,420,410	28,420,410	0	0	0
OPCO	0	27,653,268	27,653,268	0	0	0
IMTRANS	0	58,979,041	58,979,041	68,175,466	0	110,342
KYTRANS	0	3,976,924	3,976,924	4,386,064	0	3,795
APTCO	0	1,845,349	1,845,349	0	104,963	0
OHTRANS	0	67,265,724	67,265,724	102,359,440	0	245,575
WVTRANS	0	37,213,233	37,213,233	40,588,282	0	55,288
Total	0	394,587,800	394,587,800	411,697,175	361,265	10,491,099

Table 2 identifies AEP East total company consolidated NOL carryforwards ADIT on December 31, 2022 (*see,* column labeled "Consol NOLC as of 12.31.2022") of zero. According to AEP East, there were no consolidated NOL carryforward ADIT balances recorded on the AEP East Companies' books on December 31, 2022.

Also, Table 2 identifies the AEP East total company separate return NOL carryforwards ADIT on December 31, 2022 (*see,* column labeled "Stand Alone NOLC as of 12.31.2022") totaling $394,587,800. AEP East asserts the separate return amount on Table 2 represents the total company amount of NOL carryforwards ADIT that should be subject to allocation and included in the 2022 AEP East ATRR calculation. To achieve this result, AEP East includes the difference (*see*, column labeled "1901001 – Rate Base") between the "Consol NOLC as of 12.31.2022" and the "Stand Alone NOLC as of 12.31.2022" of $394,587,800 as a "NOL Adjustment" on each AEP East Company's inputs to 2022 ATRR on "Worksheet WS B-2 – Actual Stmt. AG" for Column C, Per Books Balance As Of 12/31/2022, for Account 190, Accumulated Deferred Income Taxes.

In sum, on December 31, 2022, the AEP East Companies had zero consolidated federal NOL carryforwards ADIT recorded on their books for Account 190 but for purposes of computing the 2022 ATRR calculation the AEP East Companies have included as the total company December 31, 2022 "NOL Adjustment" ratemaking inputs for Account 190 of $394,587,800 even though the AEP System has fully used and applied these NOL carryforwards and realized the associated cash income tax benefits.

In addition, Table 2 identifies the total company ADIT ratemaking only NOL Adjustments of $411,697,175 on December 31, 2022 (*see*, Account 2821001 – rate base") that were included on the AEP East Companies' Worksheet WS B-1 – Actual Stmt. AF for "protected" ADIT deficiencies included in Account 2821001 and the total company ratemaking only NOL Adjustments of $361,265 on December 31, 2022 (*see*, Account 2831001 – rate base") for "unprotected" ADIT deficiencies included in Account 2831001 on Worksheet WS B-1 – Actual Stmt. AF.

Table 3: Transmission Only NOL Adjustments – As of December 31, 2021

Source of Data: JI-1-74 Attachment 1

Transmission Only	Consol NOLC as of 12.31.2021	Stand Alone NOLC as of 12.31.2021	As of December 31, 2021 NOL Adjustment: Debit/(Credit) 960Z 1901001 - Rate Base	960F-XS 2821001 - Rate base	960F-XS 2831001 - Rate Base	960F-XS 410/411 - Excess Deferred Income Tax (Line 102 or 119)*
IM	0	15,493,177	15,493,177	21,758,404	0	623,208
KYPCO	0	10,823,112	10,823,112	3,893,739	77,948	145,941
APCO	817,784	3,865,322	3,047,539	24,018,514	0	346,957
KGSPT	0	1,900,872	1,900,872	768,696	215,899	7,348
WPCO	0	222,699	222,699	0	0	0
OPCO	0	0	0	0	0	0
IMTRANS	0	85,354,968	85,354,968	68,281,711	0	78,475
KYTRANS	0	5,780,664	5,780,664	4,389,857	0	191
APTCO	268,711	2,206,294	1,937,583	0	104,963	0
OHTRANS	0	108,311,135	108,311,135	102,576,494	0	375,921
WVTRANS	0	49,901,671	49,901,671	40,643,782	0	2,422
Total	1,086,495	283,859,913	282,773,418	266,331,198	398,809	1,580,463

*** = The OpCos' formula rate template uses Line 119 and the TransCos' formula rate template uses Line 102.**

Table 3 identifies the AEP East transmission only allocated balance of the total company consolidated NOL carryforwards ADIT recorded on the books on December 31, 2021 (*see,* column labeled "Consol NOLC as of 12.31.2021") of $1,086,495. According to AEP East, these were the transmission only NOL carryforward balances that were recorded on the AEP East Companies' books on December 31, 2021 in Account 190. As shown in Table 3, this balance applies solely to two AEP East companies, APCO and APTCO.

Also, Table 3 identifies the AEP East transmission only separate return NOL carryforwards ADIT on December 31, 2021 (*see,* column labeled "Stand Alone NOLC as of 12.31.2021") totaling $283,859,913. AEP East asserts the separate return amount on Table 3 represents the transmission only allocated amount of NOL carryforwards ADIT applicable to the 2022 AEP East ATRR calculation. To achieve this result, AEP East includes the difference (*see*, column labeled "1901001 – Rate Base") between the "Consol NOLC as of 12.31.2021" and the "Stand Alone NOLC as of 12.31.2021" of $282,773,418 as a "NOL Adjustment" on each AEP East Company's transmission only inputs to 2022 ATRR on "Worksheet WS B-2 – Actual Stmt. AG" for Column K, Transmission Functionalization December 31, 2021, for Account 190, Accumulated Deferred Income Taxes.

In sum, on December 31, 2021, the AEP East Companies had transmission only federal consolidated federal NOL carryforwards ADIT of $1,086,495 recorded on their books but for purposes of computing the 2022 ATRR calculation the AEP East Companies have included as the transmission only December 31, 2021 "NOL Adjustment" ratemaking inputs for Account 190 of $282,773,418 even though the AEP System has fully used and applied these additional NOL carryforwards and realized the associated cash income tax benefits.

In addition, Table 3 identifies the transmission only ADIT ratemaking NOL Adjustments totaling $266,331,198 on December 31, 2021 (*see*, Account 2821001 – rate base") that were included on the AEP East Companies' Worksheet WS B-1 – Actual Stmt. AF for "protected" ADIT deficiencies included in Account 2821001 and the transmission only ratemaking NOL

Adjustments totaling $398,809 on December 31, 2021 (*see*, Account 2831001 – rate base") for "unprotected" ADIT deficiencies included in Account 2831001 on Worksheet WS B-1 – Actual Stmt. AF.

Table 4: Transmission Only NOL Adjustments – As of December 31, 2022

Source of Data: JI-1-74 Attachment 1

			As of December 31, 2022			
			NOL Adjustment: Debit/(Credit)			
			960Z	960F-XS	960F-XS	960F-XS
Transmission Only	Consol NOLC as of 12.31.2022	Stand Alone NOLC as of 12.31.2022	**1901001 - Rate Base**	**2821001 - Rate base**	**2831001 - Rate Base**	**410/411 - Excess Deferred Income Tax (Line 102 or 119)***
IM	0	7,477,817	7,477,817	21,803,074	0	45,758
KYPCO	0	9,668,899	9,668,899	4,206,939	0	13,992
APCO	0	19,205,172	19,205,172	23,512,340	0	170,661
KGSPT	0	2,769,163	2,769,163	912,133	256,302	6,878
WPCO	0	2,976,211	2,976,211	0	0	0
OPCO	0	8,484,078	8,484,078	0	0	0
IMTRANS	0	58,979,041	58,979,041	68,175,466	0	110,342
KYTRANS	0	3,976,924	3,976,924	4,386,064	0	3,795
APTCO	0	1,845,349	1,845,349	0	104,963	0
OHTRANS	0	67,265,724	67,265,724	102,359,440	0	245,575
WVTRANS	0	37,213,233	37,213,233	40,588,282	0	55,288
Total	-	219,861,612	219,861,612	265,943,738	361,265	652,289

*** = The OpCos' formula rate template uses Line 119 and the TransCos' formula rate template uses Line 102.**

Table 4 identifies AEP East transmission only consolidated NOL carryforwards ADIT on December 31, 2022 (see, column labeled "Consol NOLC as of 12.31.2022") of zero. According to AEP East, there were no consolidated NOL carryforward ADIT balances that were recorded on the AEP East Companies' books on December 31, 2022.

Also, Table 4 identifies the AEP East transmission only separate return NOL carryforwards ADIT on December 31, 2022 (*see,* column labeled "Stand Alone NOLC as of 12.31.2022") of $219,861,612. AEP East asserts the separate return amount on Table 4 represents the total company amount of NOL carryforwards ADIT that should be subject to allocation in the 2022 AEP East ATRR calculation. To achieve this result, AEP East includes the difference (*see*, column labeled "1901001 – Rate Base") between the "Consol NOLC as of 12.31.2022" and the "Stand Alone NOLC as of 12.31.2022" of $219,861,612 as a "NOL Adjustment" on each AEP East Company's inputs to 2022 ATRR on "Worksheet WS B-2 – Actual Stmt. AG" for Column N, Transmission Functionalization December 31, 2022, for Account 190, Accumulated Deferred Income Taxes.

The $219,861,612 balance (*see*, column labeled "1901001 – Rate Base") represents NOL carryforwards applied to and utilized on the AEP System federal consolidated tax returns. That means the AEP System has realized the cash benefits of that NOL utilization.

In sum, on December 31, 2022, the AEP East Companies had zero transmission only consolidated federal NOL carryforwards ADIT recorded on their books but for purposes of computing the 2022 ATRR calculation the AEP East Companies have included as the transmission only December 31, 2022 "NOL Adjustment" ratemaking inputs for Account 190 of $219,861,612 even though the

AEP System has fully used and applied these NOL carryforwards and realized the associated cash income tax benefits.

In addition, Table 4 identifies the transmission only ADIT ratemaking NOL Adjustments of $265,943,738 on December 31, 2022 (*see*, Account 2821001 – rate base") that were included on the AEP East Companies' Worksheet WS B-1 – Actual Stmt. AF for "protected" ADIT deficiencies included in Account 2821001 and the transmission only ratemaking NOL Adjustments of $361,265 on December 31, 2022 (*see*, Account 2831001 – rate base") for "unprotected" ADIT deficiencies included in Account 2831001 on Worksheet WS B-1 – Actual Stmt. AF.

3. Impact on the AEP East Companies' 2022 ATRR Inputs:

Table 5: Average of BOY and EOY Separate Return NOL Carryforwards ADIT Ratemaking Adjustments

Source of Data: JI-1-74 Attachment 1					
			NOL Adjustment: Debit/(Credit)		
			960Z	960F-XS	960F-XS
Transmission Only-Total Adjustments	Consol NOLC as of 12.31.2022	Stand Alone NOLC as of 12.31.2022	1901001 - Rate Base	2821001 - Rate base	2831001 - Rate Base
BOY (As Of December 31, 2021) (Source: Table 3)	1,086,495	283,859,913	282,773,418	266,331,198	398,809
EOY (As Of December 31, 2022) (Source: Table 4)	0	219,861,612	219,861,612	265,943,738	361,265
Total	1,086,495	503,721,525	502,635,030	532,274,936	760,074
Average BOY & EOY	**543,248**	**251,860,763**	**251,317,515**	**266,137,468**	**380,037**

a. Average of BOY and EOY Account 1901001 Ratemaking Adjustments:

Analysis of the data provided by AEP East of the AEP System consolidated federal NOL Carryforwards applicable to the AEP East Companies[24][15] shows that as of December 31, 2021 AEP East had Account 1901001 consolidated NOL Carryforwards (federal) applicable to their transmission operations of $1,086,495[25][16] and as of December 31, 2022, had a zero[26][17] balance of Account 1901001 consolidated NOL Carryforwards (federal). This means the AEP East

Companies had realized the tax saving benefits of the transmission only consolidated NOL Carryforwards on December 31, 2021 except for $1,086,495 and had fully realized 100% of the tax savings benefits of all of the transmission only consolidated NOL Carryforwards on December 31, 2022.

However, for purposes of computing its 2022 ATRR calculations, AEP East increased the December 31, 2021 transmission only NOL Carryforwards ADIT balance by $282,773,418[27][18] and the December 31, 2022 balance by $219,861,612[28][19]. The average of these Account 190 adjustments caused AEP East's rate base to increase by $251,317,515.[29][20]

b. Average of BOY and EOY Account 2821001 Ratemaking Adjustments:

AEP East included transmission only "NOL Adjustments" for "protected" ADIT deficiencies in the Separate Return NOL Carryforwards ADIT ratemaking adjustments in Account 2821001. For AEP East's 2022 ATRR calculations, the transmission only "NOL Adjustment" on December 31, 2021 was $266,331,198[30][21] and on December 31, 2022 was $265,943,738.[31][22] The average of these two Account 2821001 "NOL Adjustments" resulted in an increase of AEP East's rate base of $266,137,468.[32][23]

c. Average of BOY and EOY Account 2831001 Ratemaking Adjustments Account 283: AEP East included transmission only "NOL Adjustments" for ADIT deficiencies for "unprotected" ADIT deficiencies in the Separate Return NOL Carryforwards ADIT ratemaking adjustments in Account 2831001. For AEP East's 2022 ATRR calculations, the transmission only "NOL Adjustment" on December 31, 2021 was $398,809[33][24] and on December 31, 2022 was $361,265.[34][25] The average of these two Account 2831001 "NOL Adjustments" resulted in an increase of AEP East's rate base of $380,037.[35][26]

d. Reduction of Amortization of Excess Deferred Income Tax Input (2022 ATRR Line 102 or Line 109): As part of its implementation of the Separate Return Method, AEP East also included a "NOL Adjustment" to the Excess Deferred Income Tax input[36][27] of formula rate calculation of the ITA. AEP amortized the "protected" Account 2821001 "NOL Adjustments" ADIT using an ARAM methodology but did not amortize the Account 2831001 "NOL Adjustments" ADIT deficiencies. The 2022 amortization amount of the Account 2821001 deficiencies increased debit inputs or decreased credit inputs, respectively, in the 2022 TCOS AEP East Excess Deferred Income Tax inputs by a total of $652,289.[37][28]

2. OpCos' and TransCos' Ratemaking Adjustments for Separate Return NOL Carryforwards ADIT

As previously mentioned, the AEP East OpCos and AEP East TransCos implemented the Separate Return method for NOL Carryforwards ADIT in the 2022 Annual Rate Updates *(i.e.*, 2021 ATRRs and True-Ups), the 2023 Annual Rate Updates (*i.e*., 2022 ATRRs and True-Ups), and the 2022 PTRRs. AEP East explained that the implementation of the Separate Return method for NOL Carryforwards ADIT for purposes of computing transmission revenue requirement calculations is for ratemaking purposes only[38][29] and did not result in any accounting entries,[39][30] no changes in the deductible expenses claimed on the AEP System consolidated federal tax return,[40][31] no changes to the AEP Tax allocation methodology or the intra-corporate consolidated income tax agreement,[41][32] and no changes to the AEP East Companies' accounting or FERC Form 1 reporting.[42][33] AEP East clarified that their Separate Return NOL Carryforwards method is not limited to federal but no ratemaking adjustments are needed as the state NOL are accounted for differently than federal.[43][34] Also, AEP East explained that the state NOL ADIT are calculated and accounted for on a Separate Return basis on the AEP East Companies' books and for transmission revenue requirement calculation purposes, included in Worksheet WS B-2 – Actual Stmt. AG for Account 1901001.[44][35]

The Separate Return NOL ADIT ratemaking adjustments included on Worksheets WS B-1 – Actual Stmt. AF and WS B-2 – Actual Stmt. AG of each OpCo's or each TransCo's transmission revenue requirement calculation are accomplished through the addition of two additional entries; one labeled "NOL Adjustment" and another labeled "NOL Contra." The "NOL Contra" ADIT entry is assigned to the "Non-Applicable/NonUtility" classification of the applicable ADIT schedule. The Non-Applicable/Non-Utility entry is excluded by entering the amount in Worksheet column D or E on Worksheets WS B-1 – Actual Stmt. AF and WS B--2 – Actual Stmt. AG. Ratemaking adjustments are made to Account 1901001 for the income tax effect of the Separate Return federal NOL Carryforwards ADIT and to Accounts 2821001 and 2831001 for any "protected" or "unprotected" ADIT deficiencies related to the Account 190 federal NOL Carryforwards ADIT ratemaking adjustments.

The Account 1901001 Separate Return NOL Carryforwards ADIT ratemaking adjustments were originally measured at a 35% federal corporate income tax rate. When the federal corporate income tax rate was reduced to 21% under the TCJA, AEP East remeasured the Account 190 Separate Return NOL Carryforwards ADIT ratemaking adjustments and computed ADIT deficiency ratemaking adjustments for Account 2821001 (for protected deficiencies) and Account 2831001 (for unprotected deficiencies).[45][36]

For purposes of the transmission revenue requirement calculations, AEP East has asserted that its formula rate templates allow it to make expand and contract the number of lines on the ADIT Worksheets and to include the Separate Return NOL Carryforwards ADIT ratemaking adjustments in Worksheets WS B-1 – Actual Stmt. AF and WS B-2 Actual Stmt. AG for Accounts 190, 282 and 283.[46][37]

AEP East also explained that the ratemaking adjustments made to Accounts 2821001 and 2831001 for the deficiency in ADIT related to the Account 1901001 ratemaking adjustments will reduce towards a zero balance as the deficient taxes are amortized.[47][38] In addition, AEP East explained that (i) the beginning balance of the deficient taxes related to the Separate Return NOL ADIT ratemaking change does not change as the NOL is absorbed by Separate Return taxable income in tax years after 2017 and (ii) the Account 1901001 ratemaking adjustment balances would reduce as the Separate Return NOL are theoretically utilized by Separate Return taxable income. However, the reductions of the Account 1901001 ratemaking adjustments do not impact the total balance of the Account 2821001 or Account 2831001 ADIT deficiencies because the Account 2821001 and 2831001 ratemaking adjustments are related to the TCJA federal corporate tax rate change from 35% to 21%. AEP East clarified that (i) the Account 2821001 protected balance will be settled when the excess balances, net with the deficient taxes, are fully amortized via the Average Rate Assumption Method ("ARAM"),[48][39] and (ii) the Account 2831001 unprotected balance has not been amortized. The AEP East Companies have claimed no further Order No. 864 filings are required regarding the amortization of the ratemaking adjustments included in Accounts 2821001 and 2831001 ADIT deficiencies as FERC has found its proposed tariff changes just and reasonable and consistent with Order No. 864.[49][40]

The ratemaking adjustments for the amortization of the Account 2821001 NOL Carryforwards ADIT protected deficiencies are used to increase debit inputs to or decrease credit inputs to the AEP East Excess Deferred Income Tax inputs[50][41] entered on TCOS Line 119, Excess Deferred Income Tax, of the OpCos' or TCOS Line 102, Excess Deferred Income Tax of the TransCos' formula rate templates and were grossed-up for income taxes on TCOS Line 123, Excess Deferred Income Tax, for the OpCos or TCOS Line 106, Excess Deferred Income Tax, for the TransCos.

3. Estimated Transmission Revenue Requirement Impact of AEP East's Separate Return Ratemaking Adjustments

Overall, the Joint Customer Group has identified two impacts on the AEP East transmission revenue requirement calculations resulting from AEP East's inclusion of ratemaking adjustments for Separate Return NOL Carryforwards ADIT in Accounts 1901001, 2821001, and 2831001. Both impacts cause an increase in the AEP East OpCos' and the AEP East TransCos' transmission revenue requirement calculations. First, the Separate Return ratemaking adjustments reduce the ADIT balances used as reductions of Rate Base, thereby causing an increase to Rate Base and the Return component of the transmission revenue requirements. Second, the Separate Return NOL ADIT ratemaking adjustments reflected on Worksheet WS B-1 – Actual Stmt. AF for Account 2821001 and Account 2831001 for deficiencies in the Separate Return NOL Carryforwards ADIT will be amortized and the amortization amount is used to reduce the Excess Deferred Income Tax input on Line 119 of each AEP East OpCos' TCOS Formula Rate Tab or Line 102 of each AEP East TransCos' TSCO Formula Rate Tab thereby causing an increase to each AEP East OpCo's or TransCo's ITA.[51][42]

The Joint Customer Group estimates of the impact of implementing the Separate Return method for NOL Carryforwards ADIT in the 2022 AEP East ATRRs and True-Ups calculations is an increase of the AEP East revenue requirement of approximately $47,668,109:

Table 6: Estimated Impact on the 2022 Transmission Revenue Requirement

PJM Zonal Rates (Network and Point-to-Point Transmission Service) – Rev Requirement W/O Incentives			
AEP East Company	**"As Filed" Revenue Requirement With NOL CF ADIT Ratemaking Adjustments (Network Service, Line 1)**	**Revised Revenue Requirement Without NOL CF ADIT Ratemaking Adjustments**	**Estimate of Revenue Requirement Impact of NOL CF ADIT Ratemaking Adjustments**
Appalachian Power Company	$465,177,773	$461,644,415	$3,533,358
Indiana Michigan Power Company	$188,850,529	$185,707,150	$3,143,379
Kentucky Power Company	$80,303,347	$79,065,461	$1,237,886
Kingsport Power Company	$6,597,845	$6,276,188	$321,657
Ohio Power Company	$398,709,938	$398,357,484	$352,657
Wheeling Power Company	$15,049,936	$14,856,933	$193,003
Sub-Total AEP East OpCos	**$1,154,689,368**	**$1,145,907,631**	**$8,781,737**
AEP Appalachian Transmission Company, Inc.[52][43]	$13,950,559	$13,794,101	$156,458
AEP Indiana Michigan Transmission Company, Inc.	$413,056,164	$399,843,652	$13,212,512
AEP Kentucky Transmission Company, Inc.	$21,563,416	$20,698,295	$865,121
AEP Ohio Transmission Company, Inc.	$777,924,960	$761,113,943	$16,811,017

AEP West Virginia Transmission Company, Inc.	$240,661,372	$232,820,109	$7,841,263
Sub-Total AEP East TransCos	**$1,467,156,472**	**$1,428,270,100**	**$38,886,372**
Total AEP East	**$2,621,845,840**	**$2,574,177,731**	**$47,668,109**

B. Primary Reasons for Joint Customer Group's Challenge

1. Violation of the Filed Rate

It is the Joint Customer Group's position that the ratemaking adjustments for Separate Return NOL Carryforwards ADIT on Worksheets WS B-1 - Actual Stmt. AF and WS B-2 – Actual Stmt. AG and to the Excess Deferred Income Tax input on Line 102 (for the TransCos) or on Line 119 (for the OpCos) of the TCOS tab of each AEP East formula rate template are not permitted under AEP East's filed formula rates and AEP East's inclusion of these adjustments in the 2022 ATRRs and True-Ups calculations is a violation of AEP East's filed rate accepted by the Commission pursuant to Federal Power Act ("FPA") section 205. There is no provision in AEP East's formula rates template or implementation protocols that allows for ADIT inputs to Worksheets WS B-1 – Actual Stmt. AF and WS B-2 Actual Stmt. AG for ratemaking adjustments. The AEP East Transmission Cost of Service Formula Rate templates provide that the data entered into Worksheets WS B-1 – Actual Stmt. AF (Columns B and C) and WS B-2 – Actual Stmt. AG (Columns B and C) to be based on Total Company Amounts that tie to the FERC Form 1 ("FF 1") page totals for each ADIT account (*i.e.*, Accounts 190 (FF 1 page 234(c)), 282 (FF1 page 275(k)), and 283 (FF 1 page 277(k)). Moreover, AEP East's formula rate implementation protocols require that formula rate inputs "will be either taken directly from the FERC Form No. 1 or reconcilable to the FERC Form No. 1 by the application of clearly identified and supported information..."[53][44]

2. Inconsistent with Commission Practice

It is the Joint Customer Group's position that AEP East has improperly characterized its Separate Return ratemaking adjustments as Stand-Alone adjustments, and they are not consistent with the Commission's precedent on the Commission's Stand-Alone method for computing income tax inputs for ratemaking purposes. AEP East stated that:

The stand-alone methodology used by AEP derives the NOLC deferred tax asset from the jurisdictional revenues and cost of service of the utilities and excludes the impact of activity outside the scope of providing those FERC jurisdictional services. This methodology provides the tax savings attributable to the filing of a consolidated tax return consistent with the benefits and burdens test as described in Opinion No. 173. [54][45]

AEP East's Separate Return method as implemented in the 2022 ATRRs and True-Ups fails to properly assign tax benefits to ratepayers for tax reducing benefits realized on the AEP System consolidated tax return for expenses paid by AEP East transmission ratepayers. By failing to recognize the tax payments received from affiliated entities for the tax benefits derived by the offset of the affiliates' income against AEP East's NOL deductions for expenses recovered in

transmission rates, AEP East's ratepayers are harmed, and the resulting transmission rates are unjust and unreasonable. AEP East is improperly withholding the pass-through of those tax benefits realized on the AEP System consolidated federal return which violates the Commission's tax normalization policies. That is, AEP East's so called Stand-Alone method is fundamentally a Separate Return method that contrary to Commission precedent *ignores the consolidated tax return and reflects in the tax allowance none of the tax reducing benefits the group realizes from filing a consolidated tax return.*[55][46] In contrast, the Commission has explained its stand-alone method *does not ignore the consolidated return or the tax reducing benefits the consolidated group realizes by filing such a return.* A Separate Return tax calculation, therefore, is not the same as a stand-alone tax calculation and it is improper to characterize a Separate Return or a modified Separate Return method as a stand-alone method in the context of Commission ratemaking.[56][47]
Unlike a Separate Return policy, the Commission's stand-alone policy in effect looks beneath the single consolidated tax liability and analyzes each of the deductions used to reduce the group's tax liability to determine the deductions for which each jurisdictional service is responsible. It then allocates to the jurisdictional service those deductions that were generated by expenses incurred in providing that service.
In Opinion No. 173, the Commission stated that:

[the stand-alone method] does not ignore the consolidated return or the tax reducing benefits the group realizes by filing such a return. Unlike a separate return policy, our stand-alone policy in effect looks beneath the single consolidated tax liability and analyzes each of the deductions used to reduce the group's tax liability to determine the deductions for which each service is responsible. It then allocates to the jurisdictional service those deductions which were generated by expenses incurred in providing that service. In making this allocation it is irrelevant on which member's return the deductions would be reported if the group filed separate returns. Instead the test is whether the expenses that generate the deductions are used to determine the jurisdictional service's rates. *Put more simply, the test is whether the expenses are included in the relevant cost of service. If they are, the associated deductions and their tax reducing benefits will be taken into account in calculating the tax allowance for that cost of service.* If the expenses are not, the deductions will not be taken into account. In this way the tax allowance will reflect the profit the ratepayers contribute to the group's consolidated taxable income.[57][48]

AEP East refers to several IRS private letter rulings ("PLRs") as support for its claim that its consolidated method for allocating tax benefits associated with NOL Carryforwards would result in an IRC normalization violation.[58][49] The Joint Customer Group concludes that none of the PLRs cited by AEP East support AEP East's claim of a normalization violation. Moreover, PLRs are unique to each PLR applicant and dependent upon the facts and circumstances submitted by each applicant in its PLR. Review of the PLRs identified by AEP East disclosed that none of the PLR asked IRS to determine if the "FERC's stand-alone basis" was equivalent to a "Separate Return basis," the proper calculation of NOL carryforwards for the specific utility under a consolidated tax agreement, or whether allocations made pursuant to a consolidated tax agreement were appropriate under the IRC normalization rules or should be excluded in setting FERC jurisdictional rates. AEP East has failed to support its claim of an IRC normalization violation when no AEP East Company had consolidated NOL Carryforwards applicable to their transmission operations for accelerated depreciation as of December 31, 2021 and as of December 31, 2022.[59][50]

3. **Unjust and Unreasonable Rate Base Increase**

As discussed earlier, as of December 31, 2022, all of AEP East's NOLs applicable to its Transmission operations were fully utilized in computing the consolidated federal income tax expense and liability,[60][51] such that AEP East had no total company and no transmission functional consolidated federal NOL Carryforwards as of December 31, 2022. In other words, AEP East had fully realized the tax saving benefits of all transmission related consolidated NOL at December 31, 2022 but AEP East included transmission Separate Return ADIT ratemaking adjustments for December 31, 2022 on Worksheets WS B-1 – Actual Stmt. AF and WS B-2 – Actual Stmt. AG as listed on "JI-1-074_Attachment_1" in columns "1901001 – Rate Base," of $219,861,612,[61][52] "2821001 – Rate Base," of $265,943,738,[62][53] "2831001 – Rate Base" of $361,265,[63][54] and "410/411 – Excess Deferred Income Tax (Line 119)" of $652,289[64][55] that were not recorded on the AEP East Companies' books. These transmission ratemaking adjustments caused an increase in the affected AEP East Company's rate base and ITA calculation when in fact the AEP System had fully realized these tax benefits as reductions of the AEP System consolidated federal tax liabilities and AEP East would have received tax sharing payments from its affiliates for the utilization of the AEP East NOL against the affiliates' taxable income.

As of December 31, 2021, only two of the eleven AEP East Companies, APCO, and APTCO, had consolidated federal NOL Carryforwards applicable to its transmission operations totaling $1,086,495. AEP East included transmission Separate Return ADIT ratemaking adjustments for December 31, 2021 on Worksheets WS B-1 – Actual Stmt. AF and WS B-2 – Actual Stmt. AG as listed on "JI-1-074_Attachment_1" in columns "1901001 – Rate Base" of $282,773,418,[65][56] "2821001 – Rate Base" of $266,331,198,[66][57] and "2831001 – Rate Base" of $398,809[67][58] that were not recorded on the AEP East Companies' books.[68][59]

It is unjust and unreasonable for AEP East to include the Separate Return ratemaking adjustments applicable to the transmission operations in the 2022 ATRRs and True-Ups calculations for NOL Carryforwards ADIT that ignore the fact that the AEP East Companies' NOLs were fully utilized on the AEP System's consolidated federal income tax returns at December 31, 2022 applicable to transmission functional operations and the AEP East has been fully compensated through tax sharing payments from affiliates for the tax savings that was realized on those consolidated returns. To the extent AEP East has been fully compensated in cash for its NOLs on the AEP consolidated tax returns for NOL that were utilized on the AEP System consolidated federal returns, there is no justification for the AEP East Companies to receive a rate base return on hypothetical, Separate Return DTAs for NOL Carryforwards applicable to transmission operations that have already been utilized on the AEP System consolidated federal tax returns and realized by the AEP East Companies through tax sharing payments from affiliates.

4. **Improper Decrease to Excess ADIT Refunds**

AEP East's Separate Return NOL ADIT ratemaking adjustments improperly change, without Commission authorization, the Excess ADIT amounts to be returned to transmission customers pursuant to Order No. 864.[69][60] AEP East has stated that it does not intend to make a filing with the Commission to inform and seek Commission-approval of the amortization adjustments of the Separate Return NOL ADIT deficiency adjustments made to Account 2821001 and Account 2831001 as a result of the ratemaking change. As AEP East has acknowledged, the amortization adjustments will affect the Excess Deferred Income Tax returned to transmission customers in the formula rate calculations (TCOS Lines 119 and 102 of the AEP East OpCos' Formula Rate Templates and AEP East TransCos' Formula Rate Templates, respectively).

In addition, AEP East explained that as a result of its KGSPT's TN retail rate commission allowing the separate return NOL carryforward ADIT adjustments in retail rates, the regulatory liability for excess deferred income taxes was reduced on KGSPT's books.[70][61] AEP East did not indicate whether it sought FERC approval under Order No. 864 to adjust the regulatory liability associated with the reduction in the corporate income tax rate due to the TCJA for KGSPT's TN retail regulator allowing inclusion of stand-alone ratemaking adjustments in retail rates. In the event that AEP East has not sought and received authorization from FERC pursuant to Order No. 864, these adjustments are not permitted in KGSPT's transmission formula rate calculations.

In Order No. 864, the Commission stated it would evaluate a public utility's proposed revisions on a case-by-case basis[71][62] and expected public utilities with transmission formula rates to make their proposed revisions effective January 27, 2020.[72][63] The Commission also required that such public utilities capture the full regulatory liability for excess ADIT resulting from the Tax Cuts and Jobs Act of 2017 ("TCJA") in rates, beginning on the effective date of any proposed tariff revisions.[73][64] The Commission clarified that the requirements adopted in the Order No. 864 proceeding apply only to excess and deficient ADIT caused by the TCJA and any future tax rate changes, not past period deficient ADIT.[74][65] Order No. 864 explained further that the calculation of excess and deficient ADIT will be performed once to address the effects of the TCJA.[75][66]

Given the Commission's requirements in Order No. 864 for calculating excess and deficient ADIT in conjunction with the TCJA and the fact that AEP East submitted those calculations to the Commission for approval along with corresponding excess and deficient ADIT adjustments to AEP East's transmission formula rates, it is not appropriate for AEP East to now make changes to the amount of excess and deficit deferred income taxes that will be returned to and recovered from, respectively, AEP East's transmission customers due to AEP East's decision to implement its Separate Return NOL Carryforwards ADIT ratemaking adjustments in its transmission formula rates.

Moreover, as discussed earlier in this Preliminary Challenge, AEP East's Separate Return ratemaking adjustments for NOL Carryforwards ADIT and the ADIT deficiencies are not lawful pursuant to the FPA, produce unjust and unreasonable rates because the AEP East Companies' formula rates do not allow for the inclusion of the Separate Return ratemaking adjustments, AEP East's Separate Return method erroneously ignores tax sharing payments given by AEP East's affiliates for the affiliates' use of AEP East tax benefits on the AEP System consolidated federal tax returns which are required to be shared with transmission ratepayers. Accordingly, it is likewise inappropriate for AEP East to include the ADIT deficiencies in the AEP East Companies' rate base and use the amortization of these claimed ADIT deficiencies as reductions of the amount of the excess ADIT to be returned to ratepayers pursuant to Order No. 864. AEP East's claimed ADIT deficiencies for Separate Return NOL Carryforwards ADIT have never been recorded on the AEP East Companies' books and represent hypothetical amounts of ADIT deficiencies that did not result from the remeasurement of book ADIT book balances at the enactment date of the TCJA.

5. **Improper Classification and Rate Recovery of Separate Return NOL ADIT Deficiencies That Are Regulatory Assets**

The AEP East OpCos and AEP East TransCos included the separate return ratemaking adjustments for NOL ADIT deficiencies in the Formula Rate Template Worksheets B-1 and B-2 for Accounts 2821001 and 2831001. In Order No. 864, the Commission explained that deficiencies in ADIT are properly reflected in Account 182.3, Other Regulatory Assets, by stating:

…the Commission did not propose new accounts for recording excess or deficient ADIT. Instead, the Commission noted that it had previously issued guidance on this accounting topic, finding that public utilities are required to record a regulatory asset (Account 182.3) associated with deficient ADIT or a regulatory liability (Account 254) associated with excess ADIT.[76][67]

It is clear that the AEP East OpCos' and AEP East TransCos' inclusion of the ratemaking adjustments for ADIT deficiencies for the separate return Account 1901001 NOL ADIT ratemaking adjustments are not properly classified as ADIT ratemaking adjustments on the Formula Rate Template Worksheets WS B-1 and WS B-2 for Accounts 190, 281, 282, and 283 ADIT balances. Under Commission policy, rate recovery of regulatory assets pursuant to a formula rate requires pre-approval by the Commission.

For the foregoing reasons, the Joint Customer Group challenges (i) AEP East's separate return NOL Carryforwards ADIT ratemaking adjustments, and (ii) AEP East's separate return NOL Carryforwards ADIT ratemaking adjustments that reduce the excess ADIT balances refunded to transmission customers.

6. **AEP East's Inclusion of Ratemaking Adjustments for Separate Return NOL Carryforward Ratemaking Adjustments Conflicts with FERC Precedent are Unjust and Unreasonable.**

On January 18, 2024, the Commission issued an "*Order on Formal Challenge and Complaint and Directing a Compliance Filing*" in Docket Nos. ER17-405-000, ER17-406-000, and EL23-51-000, and[77][68] finding that AEP East had failed to demonstrate the justness and reasonableness of its adjustments to its rate base for the 2021 rate year to implement its new method of allocating NOL carryforwards ADIT to its transmission function based on its stand-alone methodology.[78][69] The Commission found that "AEP East's new methodology for allocating net operating loss carryforward ADIT for each of the AEP East companies for ADIT inputs to rate base in the Formula Rate does not satisfy the Commission's benefits and burdens test, which assigns to the utility's ratepayers those tax benefits attributable to expenses borne by the utility's ratepayers…AEP East's adjustments to its ADIT inputs to rate base for the 2021 rate year to implement its new method for allocating net operating loss carryforward ADIT result in unjust and unreasonable allocation of ADIT for its ADIT inputs to rate in the Formula Rate."[79][70]

The Commission stated that while AEP East states it uses the stand-alone allocation method, its methodology fails to account for tax benefits it has utilized.[80][71] The Commission explained that AEP East evaluates the federal income tax results of each AEP East company separately by determining the income and expenses that are considered in ratemaking of an AEP East company, but excluding the tax benefits realized on a consolidated basis, and as such, AEP East retains net operating loss carryforwards in rates as if the tax benefits realized from filing on a consolidated basis did not occur, and thus it inappropriately includes ratemaking adjustments in its 2022 Annual Update that ultimately increase its transmission rates. In conclusion, the Commission found that AEP East failed to demonstrate that is proposed method results in allocation of ADIT for its ADIT inputs to rate base in the Formula Rate that provides transmission customers tax benefits in proportion to their burdens.[81][72]

The Commission noted that AEP East did not dispute that each AEP East Company had fully utilized all of its federal net operating loss carryforwards on the AEP consolidated tax return as of December 31, 2020 and that AEP East had used up its net operating loss carryforwards as of December 31, 2020, therefore no net operating loss ratemaking adjustments for the 2021 rate year are necessary or appropriate.[82][73]

The Commission directed AEP East to submit a compliance filing, within 60 days of the date of the order, detailing all of the calculations of the Formula Rate Billings for the 2022 Annual Update, revised to reflect the exclusion of the disputed input net operating loss adjustments, as well as calculations of interest. Also, the Commission directed that AEP East to provide refunds with interest on all amounts improperly collected for the 2021 rate year.[83][74]

Finally, the Commission agreed that AEP East's change in net operating loss carryforwards methodology violates its filed rate and Order No. 864, and that AEP East failed to support the allocation of ADIT for inclusion in ADIT inputs to rate base in the Formula Rate for the 2021 rate year.[84][75]

The AEP East Companies used the same methodology for the 2022 rate year Formula Rate calculations to include as inputs adjustments to ADIT included in rate base for what the AEP East Companies' claimed were Stand-Alone NOL Carryforwards ADIT ratemaking adjustments and to include as inputs amortization of the ADIT deficiencies for the ratemaking adjustments as it did for the 2021 rate year that were found to be unjust and unreasonable by the Commission in the Formal Challenge order and violated the AEP East Companies' filed rate and Order No. 864. For these reasons, the Joint Customer Group challenges the 2022 AEP East Companies' ATRR calculations (i) AEP East's Separate Return NOL Carryforwards ADIT ratemaking adjustments, and (ii) AEP East's Separate Return NOL Carryforwards ADIT ratemaking adjustments that reduce the excess ADIT balances refunded to transmission customers.

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[1] AEP East's stand-alone method is actually a separate return methodology for purposes of computing NOL ADIT and ignores the utilization of the AEP East OpCos' and AEP East TransCos' NOL on the AEP System federal consolidated return. AEP East's method, therefore, is not consistent with the FERC's stand-alone methodology for allocating consolidated income tax expense and liabilities. For purposes of this Preliminary Challenge, the Joint Customer Group refers to AEP East's NOL ADIT method as a "separate return method."

[2] *See* AEP East OpCos 2023 Annual Update Transmittal Letter, Docket No. ER17-405-000 (filed May 25, 2023); AEP East TransCos' 2023 Annual Update Transmittal Letter, Docket No. ER17-406-000 (filed May 25, 2023 and revised on May 26, 2023).

[3] All eleven AEP East Companies included Separate Return NOL ADIT ratemaking adjustments in their 2022 ATRRs and True-Up calculations. *See*, Tables 1-4 and AEP East response to JI-1-074 and "JI-1-074_Attachment_1."

[4] In each AEP East Company's formula rate template (TCOS Line 119 for OpCos and TCOS Line 102 for TransCos), the amortization is included on a line that is described as "Excess Deferred Income Tax." However, the amortization in this circumstance is actually an amortization of an ADIT deficiency.

[5] *See* AEP East OpCos 2022 PTRR Transmittal Letter, Docket Nos. ER17-405-000 (filed November 1, 2021); AEP East TransCos 2022 PTTR Transmittal Letter, Docket No. ER17-406-000 (filed November 1, 2021).

[6] *See*, *supra*, note 3 and AEP East response to JI-1-073a, b, and o.

[7] *See*, AEP East response to JI-1-073b.

[8] *See*, AEP East response to JI-1-073c.

[9] *See*, AEP East response to JI-1-073l.
[10] *See*, AEP East response to JI-2-099 and "JI-2-099_Confidential_Attachment_1".
[11] *See*, AEP East response to JI-1-073m.
[12] As explained *infra*., AEP East claimed its implementation of its separate return method for federal NOL Carryforwards ADIT also resulted in ADIT deficiencies because of the reduction in the federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017 ("TCJA").
[13] AEP East response "JI-1-074_Attachment_1."
[14] AEP East response "JI-1-074_Attachment_1."
[15] AEP East response to JI-1-074 and "JI-1-074 Attachment_1."
[16] *See, supra*, Table 3, Column "Consol NOLC as of 12.31.2021."
[17] *See, supra*, Table 4, Column "Consol NOLC as of 12.31.2022."
[18] *See, supra*, Table 3, Column "1901001 – Rate Base."
[19] *See, supra*, Table 4, Column "1901001 – Rate Base."
[20] *See, supra*, Table 5, Line "Average BOY & EOY," Column "1901001 – Rate Base."
[21] *See, supra*, Table 3, Column "2821001 – Rate Base."
[22] *See, supra*, Table 4, Column "2821001 – Rate Base."
[23] *See, supra*, Table 5, Line "Average BOY & EOY," Column "2821001 – Rate Base."
[24] *See, supra*, Table 3, Column "2831001 – Rate Base."
[25] *See, supra*, Table 4, Column "2831001 – Rate Base."
[26] *See, supra*, Table 5, Line "Average BOY & EOY," Column "2831001 – Rate Base."
[27] TCOS Line 119 on the OpCos' TCOS tab and Line 102 on the TransCos' TCOS tab.
[28] *See, supra*, Table 4, Column "410/411 – Excess Deferred Income Tax (Line 102 or Line 119)."
[29] *See, e.g.,* AEP East responses to JI-1-073d, e, f, g, and i.
[30] AEP East response to JI-1-073d.
[31] AEP East response to JI-1-073e.
[32] AEP East response to JI-1-073f.
[33] AEP East response to JI-1-073g.
[34] AEP East response to JI-1-073h.
[35] AEP East response to JI-1-073h.
[36] AEP East response to JI-1-080 and "JI-1-080_Attachment_1" identifies each AEP East Company's NOL Carryforwards by vintage year and computations of the NOL Carryforwards ADIT ratemaking adjustments for Accounts 1901001, 2821001, and 2831001. AEP East explained that the data shown on "JI-1-080_Attachment_1" differs from the data shown on the tables provided in the response to "JI-1-074_Attachment_1" as of December 31, 2021 and as of December 31, 2022. In addition, AEP East explained that the amounts shown on "JI-1-074_Attachment_1" agree to the ratemaking adjustments for Separate Return NOL Carryforwards ADIT included in the 2022 ATRR calculations but those ratemaking adjustment amounts have been updated and the updated amounts are reflected on "JI-1-080_Attachment_1." (*See,* AEP East responses to JI-2-92, JI-2-100, JI-2-101, JI-2-102, JI-2-103, JI-2-104, JI-2-105, JI-2-106, JI-2-107, JI-2-109, JI-2-110, JI-2-111, JI-2-112, JI-2-113, JI-2-114, JI-2-115, JI-2-116, JI-2-117, JI-2-119, JI-2-120, JI-2-121, and JI-2-122.)
AEP East explained that the updated ratemaking adjustment amounts for Account 190, Account 282, and Account 283 NOL Carryforwards shown on "JI-1-080_Attachment_1" were updated for two items: (1) "JI-1-80 Attachment 1" includes taxable income associated with the amended 2021 federal income whereas "JI-1-074_Attachment_1" does not (*See*, AEP East responses to JI-2-92,

JI-2-100; JI-2-101, JI-2-102, JI-2-103, JI-2-104, JI-2-105, JI-2-106, JI-2-107, JI-2-109, JI-2-110, JI-2-113, JI-2-114, JI-2-115, JI-2-116, JI-2-117, JI-2-119, JI-2-120, JI-2-121, and JI-2-122); and (2) "JI-1-80 Attachment 1" reports the taxable income for tax year 2021 with the value per the originally filed tax return whereas "JI-1-074_Attachment_1" reports the taxable income for tax year 2021 with the value as accrued on the books for 2021 *(see*, AEP East responses to JI-2-100, of the 2021 year-end per books tax accrual to the tax liability per the original 2021 federal tax return. (*See*, AEP East's responses to JI-2-100, JI-2-101, JI-2-102, JI-2-103, JI-2-104, JI-2-105, JI-2-106, JI-2-107, JI-2-109, JI-2-110, JI-2-113, JI-2-114, JI-2-115, JI-2-116, JI-2-117, JI-2-119, JI-2-120, JI-2-121, and JI-2-122.)

Also, AEP East explained regarding Note (2) on KGSPT's "JI-1-80 Attachment 1" was adjusted for implementation of "stand-alone net operating loss carryforward" in KGSPT's Tennessee retails rates resulted in a reduction to the regulatory liability for excess deferred income taxes. The accounting for excess includes offsetting balances of accumulated deferred income taxes in accounts 2821001 and 2824001 to track the amount that should be included in rate base. AEP East explained, as such, the reduction to the regulatory liability resulted in a debit to Account 2821001 and an offsetting credit to Account 2824001." (*See*, AEP East's response to JI-2-107c.)

Further, AEP East explained "JI-1-074_Attachment_1" represents balances filed in the respective AEP East Companies ATRRs as of the historical periods ended December 31, 2021 and December 31, 2022. Between the filing of the ATRRs and the historical period ended December 31, 2022, AEP East explained two events occurred: (1) An updated with-and-without analysis was performed to determine the amount of the NOLC related to accelerated depreciation as of December 31, 2017. This updated the previously filed amount of $1,298,834 to $615,972 [for KGSPT]. The difference of $680,862 was determined to be protected and should have been included in the adjustment to Account 2821001. AEP East stated, however, as the total adjustment related to the stand-alone NOLC would remain unchanged, the 2021 balances were not updated in the ATRR as of the historical period ended December 31, 2022 in order to match what was filed in the ATRR for this historical period ended December 31, 2021.; and (2) the Tennessee ("TN") Commission accepted the stand-alone NOLC position for retail rates and is included in Accounts 2821001 and 2831001 on Kingsport Power Company's financial records.. AEP East explained, therefore, the amount associated with the TN retail jurisdiction is no longer considered an "adjustment" and the amount associated with the TN retail jurisdiction in no longer part of an "adjustment" but is part of the financial books and records of Kingsport Power Company. "JI-1-80 Attachment 1" details the adjustments made to the financial records for ratemaking purposes. (*See,* AEP East's response to JI-2-108.)

Also, AEP East explained that Kentucky Power Company's ("KYPCO") with-and-without analysis was updated between the filing the ATRR for the historical period ended December 31, 2021 and December 31, 2022 and the updated with-and-without analysis determined that all of KYPCO's stand-alone NOLC as of December 31, 2017 is due to accelerated depreciation and should be recorded in account 2821001. AEP explained that $1,399,062 is not the proper value for the adjustment to Account 2831001 and the amount should be included in adjustment to Account 2821001; however, as this does not change the total of the stand-alone NOLC adjustment, AEP East stated the balance as of 2021 was unchanged to tie to what was filed in the ATRR for the historic period ended December 31, 2021. (*See,* AEP East's responses to JI-2-108, JI-2-111, JI-1-112.)

[37] *See*, AEP East response to JI-1-076.

[38] *See*, AEP East response to JI-1-081.

[39] AEP East responses to JI-1-081, JI-1-083, JI-1-088, and JI-1-094.
[40] AEP East response to JI-1-089.
[41] If the input for Excess Deferred Income Tax on TCOS Line 119 (for the OpCos) or on TCOS Line 102 (for the TransCos) is a credit entry, the amortization of the ratemaking adjustments for ADIT deficiencies for Separate Return NOL Carryforwards ADIT will cause the excess ADIT input to be reduced. If the input for Excess Deferred Income Tax on Line 119 (for the OpCos) or on Line 102 (for the TransCos) is a debit entry, the amortization of the ratemaking adjustments for Separate Return NOL Carryforwards will cause the debit balance to increase. Typically, the amortization of the ratemaking adjustments for ADIT deficiencies for Separate Return NOL Carryforwards ADIT will result in an increase to the ITA included in the transmission revenue requirement and true-up calculations. *See*, Table 4, "JI-1-074_Attachment_1" for the AEP East Transmission inputs for amortization of ADIT deficiencies for Account 2821001 on December 31, 2022 of $652,289 in the column labeled "960F-XS 410/411 – Excess Deferred Income Tax (Line 119)" entered on TCOS Line 119 (for the OpCos) or on TCOS Line 102 (for the TransCos) of the AEP East formula rate templates.
[42] When the input on Line 119 (for the OpCos) or on Line 102 (for the TransCos) of the TCOS tab of the formula rate template may be a debit or a credit adjustment that increase or decreases, respectively, the ITA calculation. By including a ratemaking adjustment for the amortization of the ADIT deficiencies for the separate return NOL Carryforwards ADIT adjustments, the debit ratemaking adjustment increases the amount of a debit input or decreases the amount of the credit input to the ITA calculation. Currently, the Account 2821001 (protected) NOL ADIT Deficiency will be amortized via the ARAM and the Account 2831001 (unprotected) NOL ADIT Deficiency has not been amortized. *See,* AEP East responses to JI-1-80. "JI-1-080_Attachment_1," JI-1-081, JI-1-083, JI-1-083, and JI-1-094.
[43] AEP Appalachian Transmission Company, Inc. 2022 Annual Transmission Revenue Requirement revised and refiled on May 26, 2023.
[44] *See*, Note 5 of Attachment H-14A, "The AEP East Operating Companies Formula Rate Implementation Protocols," and Note 5 of Attachment H-20A, "The AEP Transmission Companies in the AEP Zone Formula Rate Implementation Protocols," state "[i]t is the intent of the Formula Rate, including the supporting explanations and allocations described therein, that each input to the Formula Rate for purposes of determining the actual Net Revenue Requirement for a given Rate Year will be either taken directly from the FERC Form No. 1 or reconcilable to the FERC Form No. 1 by the application of clearly identified and supported information…"
[45] AEP East response to JI-1-073m.
[46] *Columbia Gulf Transmission Co.,* Opinion No. 173, 23 FERC ¶ 61,396, at 61,852 (1983).
[47] *Id.* at 61,852-3.
[48] *Id.* (emphasis added and footnote deleted).
[49] AEP East response to JI-1-078.
[50] As of December 31, 2021, one AEP East Company, APCO, had consolidated NOL Carryforwards ADIT applicable to its transmission operations of $817,784 and AEP East has not shown that this consolidated NOL Carryforwards ADIT amounts may cause an IRC tax normalization violation. (*See* AEP East "JI-1-074_Attachment_1.")
[51] See, *supra*, Table 2 (Total Company NOL Adjustments) and Table 4 (Transmission Only NOL Adjustments), Column "Consol NOLC as of 12.31.2022."
[52] *See, supra*, Table 4 (Transmission Only NOL Adjustments – As of December 31, 2022).
[53] *Id.*

[54] *Id.*
[55] *See, supra*, Table 4 (Transmission Only NOL Adjustments – As of December 31, 2022). On Worksheets WS B-1 - Actual Stmt. AF and B-2 – Actual Stmt. AG, the Separate Return ratemaking adjustments for Net Operating Loss carryforwards ADIT are computed on December 31, 2021 and December 31, 2022 and are averaged together to determine the formula rate inputs for ADIT. Ratemaking adjustments are identified on AEP East's "JI-1-074_Attachment_1."
[56] *See, supra*, Table 4 (Transmission Only NOL Adjustments – As of December 31, 2022).
[57] *Id.*
[58] *Id.*
[59] *See,* AEP East response to "JI-1-074_Attachment_1."
[60] *Pub. Util. Transmission Rate Changes to Address Accumulated Deferred Income Taxes*, Order No. 864, 169 FERC 61,139 (2019), *order on reh'g & clarification*, Order No. 864-A, 171 FERC ¶ 61,033 (2020).
[61] *See*, AEP East's response to JI-2-108c which states "JI-1-80_Attachment_1" details the adjustments made to the financial records for ratemaking purposes," AEP East's response on "JI-1-80_Attachment_1," Tab for KGSPT, indicates an adjustment of $(305,483) (Excel cell N34) for "Consolidated NOLC on books (Adj. for Distribution only)."
[62] Order No. 864 at PP 30, 43, and 66.
[63] *Id.* P 100.
[64] *Id.* P 45.
[65] *Id.* P 51.
[66] *Id.* P 69.
[67] Order No. 864 at P 21 (citing *Accounting for Income Taxes*, Docket No. AI93-5-000 (April 23, 1993), http://www.ferc.gov/enforcement/acct-matts/docs/AI93-5-000.asp (Accounting for Income Taxes Guidance)).
[68] *Appalachian Power Company*., 186 FERC ¶ 61,033 (2024) (*Appalachian Power Company Formal Challenge Order*), *reh'g pending.*
[69] *Appalachian Power Company Formal Challenge Order* at P 40. As discussed earlier in this Preliminary Challenge, AEP East first implemented its stand-alone treatment of NOL Carryforwards ADIT in its ATRR calculations for the 2021 rate year and included ratemaking adjustments to its ADIT accounts (Account 1901001, Account 2821001, and Account 2831001) and amortization of the related ADIT deficiencies for the NOL Carryforwards ADIT adjustments.
[70] *Id.* at P 41.
[71] *Id.* at P 42.
[72] *Id.* at P 44.
[73] *Id.* at P 47.
[74] *Id.* at P 48.
[75] *Id.* at P 49.

Response:
The Company disagrees with the Preliminary Challenge. Since FERC ruled on rehearing of the 2021 formal challenge, the Companies have received Private Letter Rulings from the IRS determining that the rate treatment proposed by the Joint Customers would lead to a normalization

violation. FERC has approved a Motion to reopen the record in the 2021 Formal Challenge proceeding to consider the PLRs.