SUBJECT: AEP East Operating Companies' and East Transmission Companies' 2020 Formula Rate True-up Preliminary Challenge Responses to Interested Parties.

Because of their voluminous nature, attachments referenced in these responses will be provided based on an emailed request. Requests for attachments deemed confidential will require execution of a non-disclosure agreement prior to being provided.

Requests can be sent to:

David Weiss
American Electric Power Service Corporation
Regulatory Case Manager
dbweiss@aep.com

- OR -

Lila Munsey
American Electric Power Service Corporation
Regulatory Case Manager
lpmunsey@aep.com

American Electric Power Service Corporation
801 Pennsylvania Ave, NW, Suite 735
Washington, DC 20004-2615

February 11, 2022

Mr. Chris Norton
American Municipal Power, Inc.
1111 Schrock Road, Suite 100
Columbus, OH 43229

RE: Response to Preliminary Challenges to 2020 Annual Transmission Formula Rate True-up: AEP East Operating Companies and AEP Transmission Companies in the AEP Zone
Docket Nos. ER17-405-000
ER17-406-000

Dear Mr. Norton:

Pursuant to the Formula Rate Implementation Protocols for the AEP East Operating Companies and the AEP Transmission Companies in the AEP Zone (Attachments H-14A and H-20A, respectively, to the PJM Open Access Transmission Tariff), American Electric Power Service Corporation ("AEP") provides this to the Joint Customer Group's ("JCG") January 7 2022 letter ("Letter") notifying AEP of Preliminary Challenges to certain components of: (i) the AEP East Operating Companies' Formula Rate Annual Update True-up for 2020, which was filed with the Federal Energy Regulatory Commission ("FERC") on May 25, 2021 in Docket No. ER17-405-000 ("2020 OpCo True-up"), and (ii) the AEP East Transmission Companies' Formula Rate Annual True-up for 2020, which was filed with FERC on May 25, 2021 in Docket No. ER17-406-000 ("2020 Transco True-up").

In the Letter, JCG explained that JCG was providing two groups of Preliminary Challenges: one set representing challenges to the formula being raised by the JCG ("Unresolved" Preliminary Challenges), and a second set of issues that, in its discovery responses, AEP acknowledged requires some sort of corrective action for which you have requested confirmation of that action ("Resolved" Preliminary Challenges).

For ease of reference, below AEP restates each issue identified in your January 7, 2022 letter, followed by AEP's response. Please let us know if you have any questions about the information provided.

Sincerely,

s/ Stacey Burbure
Stacey Burbure
Senior Counsel
American Electric Power Service Corporation

801 Pennsylvania Ave, NW,
Suite 735
Washington, DC 20004-2615
slburbure@aep.com

AEP EAST 2021 OpCo and 2021 TRANSCO
PJM Transmission Formula Rate Update

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-01 Account 506 - Miscellaneous Steam Power Expenses Instead of Account 566 - Miscellaneous Transmission Expenses.

In reference to AEP's responses to JI 1-49, "JI-49_Attachment_1," "QUERY" tab, Column "WO_Descr," and JI-2-20, AEP agreed the following generation work orders should be recorded to Account 506 - Miscellaneous Steam Power Expenses instead of Account 566 - Miscellaneous Transmission Expenses. AEP shall provide refunds for the overstatement of Account 566 in the total amount of $172,699.12.

Work Order	$ Amount
SENRAPMG01	$15,196.58
SNERCA3G01	$157,292.25
SNERCRMG01	$210.29
Grand Total	$172,699.12

Response: The Company agrees with this Preliminary Challenge. However, the amount to be refunded is not the gross value of the charges as noted in this Preliminary Challenge, but will reflect the allocated value of charges in account 566 after the application of the TP allocator for each east operating company on which the charges were incurred. The total amount of the refund will be $168,503.24.

Company	Account	SENRAPMG01	SNERCA3G01	SNERCRMG01	Total	2020 True-up TP Allocator	Total Refund
APCO	566000	8,839.77	91,485.90	121.68	100,447.35	.97785	$98,222.44
I&M	566000	3,344.28	34,621.32	47.06	38,012.66	.96466	$36,669.29
KPCO	566000	3,012.53	31,185.03	41.55	34,239.11	.98167	$33,611.51
Grand Total		15,196.58	157,292.25	210.29	172,699.12		$168,503.24

Date: 2/11/2022

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-02 Formula Template Error – Depreciation Rate Account Numbers

In reference to AEP' response to JI 1-69, AP TranCo, WV TransCo and OH TransCo's "WS P Dep Rates" tab, the JCG requested that AEP confirm that the following account numbers referenced are incorrect and should correlate to the accounts/rates included in AEP's 12/23/2020 depreciation rate filing under Docket No. ER21-735-000.

- AP TransCo – Excel Rows 31-35
- OH TransCo – Excel Rows 16-23 and 30-34
- WV TransCo – Excel Rows 30-34

AEP's response to JI 1-69 states, "AEP confirms the account numbers were incorrect and will be corrected going forward. These changes have no impact on rate."

Response: The Company agrees with this Preliminary Challenge, and will make the requested corrections, however they have no impact on the rate.

Date: 2/11/2022

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-03 Formula Template Errors – ADIT

a. In reference to JI 1-130, Ohio Power's "WS B-3" tab, AEP confirms that formula calculating the sum of Lines 4a through 5b, Excel Cell O48, 410/411 Deferred Tax Expense (Benefit) Total for Accounting Entries is inconsistent with all other AEP East formulas and will be fixed moving forward. This change will have no impact on rate.

b. In reference to JI 1-142, Wheeling Power's "WS B-3", Excel Cell I48, Excess ADIT Regulatory Offset Total for Accounting Entries, AEP acknowledges that the formula was removed in error and will be corrected moving forward. This change will have no impact on rate.

c. In reference to JI 1-143, Wheeling Power's "WS B-3," Excel Cell J48, Excess ADIT in Utility Deferrals Total for Accounting Entries (Sum of Lines 4a through 5b), AEP acknowledges that the formula was removed in error and will be corrected moving forward. This change will have no impact on rate.

Response:

The Company agrees with this Preliminary Challenge, and will make the requested corrections, although they have no impact on the rate.

Date: 2/11/2022

JCG-2020-04 OPCo Transmission Depreciation Input Error – TCOS

In reference to JI 1-128, OPCO's "TCOS" tab, Line 100, Transmission depreciation and amortization expense in the amount of $65,344,514, AEP confirms that there was an input error and that the amount should have stated $62,344,514. AEP confirms that it will issue refunds for the $3 million error.

Response:

The Company agrees with this Preliminary Challenge, and a refund was provided as a credit to OPCo's 2022 Projected Revenue Requirement.

Date: 2/11/2022

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-05 Missing Excluded Plant Projects from IM TransCo

In reference to JI 1-155, AEP Indiana Michigan Transmission Company's "TCOS" tab, Excel Cell L205, less transmission plant excluded from PJM Tariff, AEP notes that Worksheet A omitted certain projects from the excluded plant amount. The balance should have stated $30,690,780. AEP shall provide refunds for the $10,000 understatement of this balance.

Response:

The Company agrees with this Preliminary Challenge. A refund of $1,078 will be issued as defined in the protocols in Attachment H-20 of the PJM OATT.

Date: 2/11/2022

JCG-2020-06 Formula Template Errors – TCOS

a. In reference to JI 1-144, WPCO's "TCOS" tab, Line 139, Regional Market Expenses, AEP agrees Excel Cell H236 should reflect a formula rather than an input. AEP's response to JI 1-144 states, "The Company agrees this cell should reflect a formula. It will be fixed going forward. This change has no impact on rate."

b. In reference to JI 1-179, AEP Kentucky Transmission Company's "TCOS" tab, Excel Cell L42, Less: Load Dispatch – Scheduling, System Control and Dispatch Services, AEP agrees that this formula should reference cell D28. This formula will be fixed going forward and has no impact on rate.

Response:

The Company agrees with this Preliminary Challenge, and will make the requested corrections, although they have no impact on the rate .

Date: 2/11/2022

Responses to Joint Customer Group Preliminary Challenges

Unresolved Issues Designated as Preliminary Challenges

JCG-2020-07 Labor Charges Billed Between AEP Affiliates

> In reference to AEP's response to JI 1-22, "JI_Set_1-22_Attachment 1," "JI 2 22" tab, Column "Workorder Desc," entries entitled "SCCRAEPL01 CCR Ins Recovery Litigation" in the total amount of $2,405,749 and "SCCRLITI01 CCR Ins Recovery Negotiation" in the amount of $53,616.14. To the extent that AEP received reimbursement for its litigation expenses and did not apply those reimbursements to Account 923, the JCG challenges the treatment of such reimbursements.

Response: The Company does not agree with this Preliminary Challenge. AEP received proceeds in 2020 from the settlement of one of these legal matters. Those proceeds were recorded to FERC Account 925, which for formula rate purposes is allocated on the same basis as Account 923. Therefore, there is no impact to formula rate customers from recording the proceeds to Account 925 instead of Account 923.

Date: 2/11/2022

JCG-2020-08 State Public Service Commission Fees

AEP East has included State Public Service Commission ("PSC") fees in FERC Account 408, Taxes Other Than Income Taxes ("TOTI"), rather than in FERC Account 928, Regulatory Commission Expenses, as required under the Commission's accounting regulations. In AEP East's response to Data Request JI 1-24, AEP East sought to justify recording these amounts in Account 408 by stating that AEP's East OPCo's and TransCo's, "have historically recorded commission fees in account 408.1."

PSC fees, however, are not taxes; they are fees should be charged to Account 928. The Commission's Uniform System of Accounts ("USofA") instructions are clear that these PSC fees should be included in Account 928:

> A. This account shall include all expenses (except pay of regular employees only incidentally engaged in such work) properly includible in utility operating expenses, incurred by the utility in connection with formal cases before regulatory commissions, or other regulatory bodies, or cases in which such a body is a party, including payments made to a regulatory commission for fees assessed against the utility for pay and expenses of such commission, its officers, agents, and employees, and also including payments made to the United States for the administration of the Federal Power Act. [emphasis added]

The USofA description of Account 408 in the "special instructions" for Accounts 408.1 and 408.2 states:

> These accounts shall include the amounts of ad valorem, gross revenue or gross receipts taxes, state unemployment insurance, franchise taxes, Federal excise taxes, social security taxes, and all other taxes assessed by Federal, state, county, municipal, or other local governmental entities, except income taxes.

Furthermore, in the Audit Report issued in FERC Docket No. FA92-15, FERC addressed this issue directly when a different utility made the same error:

> 4. Accounting for Regulatory Commission Expenses
>
> The Company used the wrong account to classify regulatory commission expenses.
>
> The New Mexico Public Service Commission (NMPSC) bills the Company an annual assessment for its inspection and supervision costs.
>
> The Company recorded the NMPSC annual assessment in Account 165, Prepayments, and amortized the amount to Account 408.1, Taxes Other Than Income Taxes, Utility Operating Income, over the subsequent twelve months. It charged \$636,038 and \$666,161 to Account 408.1, for 1990 and 1991 respectively.
>
> Discussion of Accounting Requirements
>
> The Company did not record the assessment in the proper operating expense account.

> The instruction to Account 408.1, Taxes Other Than Income Taxes, Utility Operating Income, state in part:
>
> > This account shall include those taxes other than income taxes which relate to utility operating income...
>
> The instructions to Account 928, Regulatory Commission Expense, of the Uniform System of Accounts state in part:
>
> > A. This account shall include all expenses ... properly includible in utility operation expenses, incurred by the utility in connection with formal cases before regulatory commissions … including payments made to a regulatory commission for fees assessed against the utility for pay and expenses of such commission … and also including payments made to the United States for the administration of the Federal Power Act. [Emphasis added.]
>
> Under the previously mentioned requirements, the Company should have recorded the regulatory assessment in Account 928, instead of using Account 408.1.
>
> Recommendation
>
> We recommended the Company revise procedures to ensure that it records the NMPSC assessment in Account 928.

AEP East also alleges in its Data Response JI 1-24 that this accounting error was not "flagged" by recent audits. However, AEP East's historical practice of recording costs to a certain account does not render the practice correct, nor does allegedly not being caught in prior audits render the practice correct. These prior audits did not approve this accounting treatment, and AEP East provided no demonstration that these PSC fees were specifically reviewed and evaluated during the prior audits or through a separate Commission action.

The costs at issue are properly recorded in Account 928 per the FERC Uniform System of Accounts, and subject to the prescribed ratemaking treatment for that account in the Formula Rate. These commission fees are the same as the annual charge assessments imposed by FERC, which AEP East properly records in Account 928. The state regulatory commissions are not taxing authorities and the annual assessments imposed to fund the operations of the state regulatory commission should not be considered a tax in Account 408.

This misclassification has a direct impact; under the Formula Rate, Account 928 directly assigns costs to "wholesale" transmission if the costs are directly attributable to the wholesale transmission function. These PSC fees provide no benefit to the wholesale transmission customers, but rather support AEP East's retail customers. AEP East's use of Account 408 utilized a gross plant allocator rather than direct assignment. As a result, AEP East's improper accounting affects costs that would otherwise be excluded and accounting requirements under the USofA. In the 2020 ATRR alone, this improper accounting treatment has overstated the net revenue requirement by $4,324,025.

Responses to Joint Customer Group Preliminary Challenges

Template	Line No.	PSC Amount	Overstatement of Revenue Requirement
OH TransCo's "WS H-p1 Other Taxes" tab	Line 16 - State Public Service Commission Fees	$863,482	$863,482
I&M's "WS H Other Taxes" tab	Line 15 – State Public Service Commission Fees	$2,719,523	$474,429
KPCo's "WS H Other Taxes" tab	Line 16 – State Public Service Commission Fees	$1,180,726	$268,485
OPCo WSH Other Taxes	Line 16 – State Public Service Commission Fees	$4,833,637	$1,521,917
WPCo WS H Other Tax	Line 14 – State Public Service Commission Fees	$995,169	$100,078
APCo's "WS H Other Taxes" tab	Line 16 - Public Service Commission Fees, "Other" Column	$4,468,513	$1,095,635

Response: AEP does not agree with this Preliminary Challenge. As previously detailed in the discovery response the AEP companies have consistently recorded commission expenses in account 408. It is appropriate and just and reasonable that a portion of Public Service Commission fees be allocated to transmission customers because the transmission system is affected by actions of state regulatory agencies, even if state public utility commissions do not have direct oversight over wholesale transmission rates. To the extent certain of the AEP East Companies incur state commission fees related to the ownership and operation of their transmission assets, they should be allowed to recover a transmission-allocated share of those costs. The Commission has previously rejected customers' challenges that the public utility's formula rate should not provide for recovery of certain costs that are not directly related to transmission. For example, in PPL Electric Utilities, 136 FERC ¶ 61,101 at PP 16-18 (2011), the Commission addressed a formal challenge by a customer group that the formula rate should "include expenses that are directly or indirectly related to transmission service and not those related to retail service." The Commission held that the utility's formula rate was designed to recover transmission-related costs, both direct and indirect, and that the formula's use of allocation factors for certain FERC accounts permits the inclusion of costs that are not directly related to transmission. The Commission has also explained that the scope of Account 928 is limited to those costs that are incurred in connection with "formal cases" before regulatory commissions, and that expenses that are not incurred in connected with formal cases should be excluded from Account

928. The Commission has indicated that formal cases mean cases in which a docket has been assigned. *See, e.g.*, 18 C.F.R. Part 101, Account 928(A), Regulatory Expenses; *Ameren Ill. Co.*, 174 FERC ¶ 61,209 at P 57 (2021) (finding that certain expenses not associated with a "docketed matter" should not be recorded in Account 928); *Ameren Ill. Co.*, 169 FERC ¶ 61,042 at P 30 (2019) (citation omitted) (finding that expenses incurred in connection with formal cases before a regulatory body would fall within the instructions of Account 928" and that expenses that are not incurred in connection with formal cases should not be included in Account 928). The Public Service Commission fees in question were not incurred in connection with formal cases in which a docket was assigned. Accordingly, the costs at issue should not be booked to Account 928.

Date: 2/11/2022

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-09 Capital Lease Interest Expense

> In response to JI 1-26 and JI 2-13, AEP explains that capital lease interest expense has been reclassified from functional operating expense accounts to Account 931005. In JI-2-13, Attachment "JI 2-13 QA-58398_-_2020_LEACAPINT_Attachment_1," AEP summarizes the capital lease interest expense by function, which results in $1,559,421 being reclassified to Account 931. The data also shows that approximately 1% of the transfers relate to transmission-related leases. Under the Formula Rate Update, Account 931 is allocated to the transmission revenue requirement through the Wages and Salaries allocator. Accordingly, as a result of the reclassification, more costs are allocated to the transmission formula rate. The JCG believes that the Commission has not authorized the accounting change made by AEP for capital leases and under the FERC USofA, the total cost of leases should be reported in the proper functional expense account for Rents. In addition, the FERC Chief Accountant's accounting guidance on FASB's ASU 2016-02 in Docket No. AI19-1-000 specifically stated that it should have no impact on rates and did not provide AEP's accounting methodology for capital lease interest expense. As a result of this non-FERC compliance accounting change and its adverse impact on transmission rates, the JCG challenges AEP's treatment of capital lease interest expense.

Response: AEP does not agree with this Preliminary Challenge. As previously stated in the discovery responses and in other dockets, the AEP companies have appropriately recorded capital lease interest expense in Account 931 (Rents). Under the USofA, a capital lease asset and obligation must be recorded to Accounts 101.1, 227, and 224 at an amount equal to the present value of the minimum lease payments as measured at the beginning of the lease term. The USofA also requires that the recorded lease obligation and asset be reduced by the principal portion of each lease payment. In the application of this accounting, the AEP lease accounting system performs an allocation to assign a portion of each lease payment to "principal," which serves to reduce the lease obligation. The difference between the total lease payment and the portion of the payment assigned to principal is commonly referred to as "interest." Under the USofA, actual amounts paid under lease arrangement must be recorded on the income statement in the appropriate rent expense account. 18 C.F.R. § Part 101, General Instruction 20(D). Account 931 (Rents) does not require costs to be recorded by function, but rather, as an administrative and general expense it is appropriately allocated to functions pursuant to the allocator in the approved formula rate. The referenced accounting issuance on operating leases did not change the capital lease accounting requirements, did not change the recording of capital lease expense in Account 931 (Rents), and was "intended to have no impact on the existing ratemaking treatment or practices." Therefore, AEP's recording of the capital lease interest expense in Account 931 (Rents) is appropriate, in accordance with the USofA, and AEP's Commission approved formula rate. Finally, the requested change would only have a minimal impact on rates. See the response to JCG-2020-PC-13 for the quantification of this issue.

Date: 2/11/2022

JCG-2020-010 Depreciation Expense Affecting Cash Working Capital

In reference to AEP's responses to JI 1-28 and JI 2-15, the JCG asked for an explanation as to why AEP does not record AEPSC depreciation expense Solely to FERC Account Nos. 403 or 403.1. AEP responded in JI 2-15, "FERC Account Nos. 403 and 403.1 are to be used for the depreciation of Electric Plant in Service. These assets are not in service on the books of the OpCos and the TransCos, these depreciable assets are on the books of AEPSC. Therefore, it would not be appropriate for the OpCos and TransCos to reflect this as depreciation expense, as they are not their assets being depreciated. 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 a cost incurred by the OpCos and the TransCos for receiving services from AEPSC."

The JCG challenges inclusion of these expenses as AEP should follow General Instruction #14 and FERC provided a specific example of this requirement for Centralized Service Companies in 06-11, page 243 § 367.4030(a) related to all service company property, the cost of which is included in accounts 390 through 399.1 (§§ 367.3900 through 367.3991) for comparison purposes. Furthermore, page 148 § 367.14 states "Transactions with associate companies must be recorded in the appropriate accounts for transactions of the same nature." AEP records the depreciation allocated to it from AEPSC in the following accounts:

a. 5600 - Oper Supervision & Engineering
b. 5612 - Load Dispatch-Mntr&Op TransSys
c. 5615 - Reliability,Plng&Stds Develop
d. 5620 - Station Expenses
e. 5630 - Overhead Line Expenses
f. 5640 - Underground Line Expenses
g. 5660 - Misc Transmission Expenses
h. 5670 - Rents
i. 5680 - Maint Supv & Engineering
j. 5690 - Maintenance of Structures
k. 5691 - Maint of Computer Hardware
l. 5692 - Maint of Computer Software
m. 5700 - Maint of Station Equipment
n. 5710 - Maintenance of Overhead Lines
o. 5720 - Maint of Underground Lines
p. 5730 - Maint of Misc Trnsmssion Plt
q. 9200 - Administrative & Gen Salaries
r. 9210 - Office Supplies and Expenses

s. 9230 - Outside Services Employed
t. 9250 - Injuries and Damages
u. 9260 - Employee Pensions & Benefits
v. 9280 - Regulatory Commission Exp
w. 9302 - Misc General Expenses
x. 9350 - Maintenance of General Plant

For the FERC Form 1 and ratemaking, AEPSC depreciation expense allocated to AEP should still be recorded in a sub-account of FERC Account 403, which would continue to include it in AEP's rates, but would remove it from the calculation of AEP's CWC calculation. FERC precedent is that depreciation expense is not applicable to the CWC calculation. See, e.g., So. Cal. Edison Co., 3 FERC ¶ 63,033 (1979) ("The purpose of the cash working allowance is to compensate the investors for the use value of their money where the Company is required to pay expenses prior to receiving from the ratepayers the revenues associated with those expenses. Depreciation expense is not a cash expense requiring payment by the Company prior to receipt of revenue from the ratepayers."). In addition, as stated in General Instruction #14 (similar to RM06-11), "…Transactions with associated companies shall be recorded in the appropriate accounts for transactions of the same nature…." The depreciation expense allocated to AEP is of the same nature as AEP's depreciation expense for General and Intangible plant which would be recorded in either FERC Account 403 or Account 404. Depreciation expense is not of the same nature as the FERC accounts listed above.

AEP records all depreciation related to jurisdictional general plant and intangible assets in either FERC Account 403 or FERC Account 404. Therefore, AEP is neither following the Uniform System of Accounts instructions for General Instruction #14 nor those instructions related to each of the FERC accounts it has recorded depreciation expense in above. The total amount AEPSC depreciation expense of $1,925,740 recorded in the FERC accounts listed above should not be subject to CWC.

Response: AEP does not agree with this Preliminary Challenge. The plant assets the Joint Customer Group are referring to are not the property of the OpCos and the TransCos, and including the depreciation expense of those assets on the books of the OpCos and TransCos would inappropriately and inaccurately create a mismatch between plant in service and accumulated depreciation, and would inappropriately and inaccurately reduce the OpCos and the TransCos rate base.

Contrary to the Joint Customer Group's assertions, General Instruction #14 and 18 C.F.R. § 367.14 do not require a utility operating company to record depreciation expense of a service company plant asset. Rather, those regulations merely require that transactions with associate companies be recorded in the accounts "for transactions of the same nature." This does not mean the exact same account, but rather transmission expenses of the service company should be booked as transmission expenses, and depreciation expenses of the service company as operations and maintenance expenses of the utility. As the Commission recently explained:

The Uniform System of Accounts *does not* require the public utility to recognize a billing from the centralized service company to the public utility in the same account that the centralized service company used for that expense on its books. Accordingly, the fact that there are no transmission plant accounts for use by a centralized service company is not a valid reason for the Entergy Operating Companies to fail to record the payment of transmission-related costs on their books as a transmission expense. Because the expenses associated with *depreciating the Control Centers are transmission expenses*, applying the Commission's accounting requirements under the Uniform System of Accounts should result in the Entergy Operating Companies recognizing the payments to Entergy Services related to the Control Centers' operation and depreciation *in a transmission expense account*.

Louisiana Public Service Commission v. Entergy Services, Inc., 168 FERC ¶ 61210, at P 27 (2019) (emphasis added). Indeed, the Commission accepted on compliance Entergy's recording of Control Center plant depreciation expense in a *transmission operations and maintenance account* of the utility operating company, not in a depreciation account. *See Entergy Services, LLC*, Letter Order on Compliance, Docket No. EL18-201-000 (filed May 6, 2020); Entergy Arkansas, LLC, Compliance Filing at 2, Docket No. EL-201-001 (filed Dec. 13, 2019).

Likewise, the regulations for Centralized Service Companies provide detailed requirements for the accounting of Centralized Service Company property and the depreciation of those assets are to be recorded on the books of the Centralized Service Company, not the operating utility company. *See* 18 C.F.R. §§ 367.20, 367.50-367.59. The total direct and indirect cost, including the depreciation expense on Centralized Service Company property, to provide services to the utility are properly charged as *expense* by the service company to the utility. *See* 18 C.F.R. § 367.1(a)(46).

Therefore, the appropriate accounting methodology is to record the depreciation expense on the books of the service company, which records the plant on its books, while charging the appropriate amount of such costs to the operating utility company as an operations or maintenance expense. Doing otherwise is contrary to the Commission's accounting requirements, and would result in an unjust, unreasonable, and arbitrary rate base amount for the OpCos and TransCos. The Commission approved formula rate appropriately derives cash working capital from the utility's operations and maintenance expense.

Finally, Commission audit staff recently reviewed AEP's accounting for the depreciation of service company assets and found no issue. In Docket No. FA17-1-000, FERC audit staff evaluated the Companies' compliance with the Commission's: (1) cross-subsidization restrictions on affiliate transactions under 18 C.F.R. Part 35; (2) accounting, recordkeeping, and reporting requirements under 18 C.F.R. Part 366; (3) Uniform System of Accounts (USofA) for centralized service companies under 18 C.F.R. Part 367; (4) preservation of records requirements for holding companies and service companies under 18 C.F.R. Part 368; and (5) FERC Form No. 60 Annual Report requirements at 18 C.F.R. Part 369. It also evaluated the associated public utilities' transactions with affiliated companies for compliance with the Commission's accounting requirements under 18 C.F.R. Part 101, the applicable reporting requirements in the FERC Form No. 1 under 18 C.F.R. Part 141, and jurisdictional rates on file.

During this audit, there was a specific data request asking for a "description of how AEPSC allocates depreciation to affiliate public utilities and affiliated non-public utilities." The audit report from FERC found no issues or findings related to the Company's treatment of AEPSC depreciation expense, and there have been no changes in the treatment of AEPSC depreciation expense since the audit. For reference, this audit report has been included as JCG-2020-PC-10 Attachment 1.

Date: 2/11/2022

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-011 Utility Plant Transfers

> In response to JI 1-40 and 2-17, AEP details the transfers from or to Transmission, Intangible or General Plant accounts in the 2020 true-up that, prior to 2020, were not recorded to those accounts. AEP also provides the dates those transfers were recorded. AEP has not explained that the assets transferred were used to perform a different utility operating function prior to the transfer and the transfers appear to reflect corrections of prior year's accounting. Accordingly, the JCG challenges AEP's implementation of the transfers in the Formula Rate Update to the extent the transfers were not reflected beginning in the January 2020 balances on WS A – RB Support.

Response: The Company both agrees and disagrees with this Preliminary Challenge, based on its evaluation of each transfer presented in the response to data request 2-17, Attachment 1. See JCG-2020-PC-11 Attachment 1 for the Company's response to each transfer. To the extent it agrees to provide a refund or surcharge for a transfer, it will state that in the supporting attachment. Please note that based on the transfers that do warrant a refund or surcharge, the amount of the refund will be $9,541, plus related interest as defined in the formula protocols.

Date: 2/11/2022

JCG-2020-012 Written Off CWIP Projects

In response to JI 2-1 asked during to the 2019 ATRR review, AEP explains that the OpCos policy is to record the costs of projects incurred to Account 183 or Account 107 that are later cancelled by expensing those costs to the appropriate functional expense account. In response to JI 1-4 and 1-5 of the 2020 ATRR review, AEP's response indicates that it wrote off $710,739.32 of cancelled CWIP projects from FERC Account No. 107 to FERC Account Nos. 560-573. In response to JI 2-3, AEP explained that the write offs are not related to cancelled or abandoned projects, but to "rescoped" projects for which the written-off costs cannot be absorbed.

The JCG challenges AEP's accounting and resulting rate recovery of cancelled construction projects to the extent that the costs represent *cancelled* project costs. The JCG notes that the FERC USofA addresses the accounting for cancelled construction projects in the text to Account 182.2, which includes significant unrecovered cost of plant facilities where construction has been cancelled and when approved by FERC. There is no part of the FERC USofA that permits the cancelled construction projects to be expensed from Account 107 to an operating expense account, nor is there FERC precedent supporting such treatment. More importantly, the FERC's rate policy and precedent supports that FERC approval is required prior to recover the cost of cancelled construction costs recorded in Account 107.[1] Furthermore, to the extent cancelled construction projects are sought to be included in rates, such recovery should generally be limited to 50% of cancelled project costs consistent with FERC precedent.[2] Accordingly, the JCG believes that AEP improperly recovers cancelled construction project costs in the formula rate.

To the extent that the written-off costs represent changed costs due to "rescoping," there is no FERC policy that supports the immediate expensing of such costs. See *Pacific Gas and Electric Company*, 177 FERC ¶ 61,217 at P. 18 (2021):

> 18. Here, PG&E does not assert that CAISO has recommended abandonment of any of the Projects. Instead, PG&E asserts that the "rescoping" of the Projects through CAISO's regional transmission planning process has resulted in a reduction in size and cost of the Projects to such an extent that the originally conceived Projects have been "essentially cancelled" and, therefore, should be eligible for abandoned plant cost recovery treatment under Opinion No. 295. However, PG&E cites no authority to support its theory that the Commission should permit such cost recovery where projects have been ""rescoped," and we see no reason here to deviate from the Commission's well-established policy. The

[1] Kansas Electric Power Cooperative, Inc. v. Evergy Kansas Central, Inc., 175 FERC ¶ 61,044 at P. 56 (2021); Pub. Serv. Co. of New Mexico, 75 FERC ¶ 61,266, 61859, at P 61859 (1996); Tucson Elec. Power Co., 168 FERC ¶61,165, 61868, at P 61868 (2019)

[2] New England Power Company, Opinion No. 295, 42 FERC P 61,016, reh'g denied in part, Opinion No. 295-A, 43 FERC P 61,285 (1988).

> Projects are designated as active and ongoing within CAISO's 2020-2021 Transmission Plan, and CAISO has assigned 2025 and 2026 expected in-service dates for them.24 Therefore, we find that the Projects have not been abandoned; thus, they do not qualify for abandoned plant cost recovery treatment pursuant to Opinion No. 295.25 Further, unlike in situations where projects have been abandoned, the Commission's accounting procedures provide for the capitalization of construction costs once the Projects go into service; therefore, PG&E will have the opportunity to seek recovery of the relevant costs at that time.

For the foregoing reasons, the JCG challenges the inclusion of these expenses in the formula rate template.

Response: AEP does not agree with this Preliminary Challenge. As indicated in the informal discovery response, AEP properly expensed in the correct operating expense account the amount of construction work in progress for rescoped projects.

AEP disagrees that if these costs are considered "cancelled" project costs that they should go completely unrecovered. The Joint Customer Group is conflating the recovery of a return on cancelled project costs, which requires prior Commission approval, with the recovery of cancelled project costs as an expense, which does not. Under long-standing Commission precedent, a utility has always been allowed to expense prudently-incurred cancelled project costs without prior approval. *New England Power Co.*, Opinion No. 49, 8 FERC ¶ 61,054, at 61,175-76 (1979), *order on reh'g*, Opinion No. 49-A, 10 FERC ¶ 61,279 (1980), *aff'd in rel. part*, *NEPCO Mun. Rate Committee v. FERC*, 668 F.2d 1327 (D.C. Cir. 1981), cert. denied, 457 U.S. 1117 (1982). Only when the utility seeks to recover *a return on* the amount of cancelled project costs through its inclusion in rate base, must prior Commission approval be obtained. 18 C.F.R. § Part 101, Account 182.2(A)(2).

The assertion that *Kansas Electric Power Coop., Inc. v. Evergy Kansas Central, Inc.*, changed this long-standing precedent is wrong. The original order on complaint stated that Opinion No. 49 did not remove Evergy KC's "obligation to seek prior Commission approval to recover cancelled project costs." *Kansas Electric Power Cooperative, Inc. v. Evergy Kansas Central, Inc.*, 175 FERC ¶ 61,044, at P 56 (2021). But, that statement came in the context of the Commission's discussion of a utility seeking to include cancelled projects costs in rate base. *Id.* The Commission made this expressly clear on rehearing: "The Commission's reference to Opinion No. 49 in the April 2021 Order merely offered further support that *if Evergy KC were to utilize Account 182.2 (which it has not done here)*, it would have to seek Commission approval prior to booking significant amounts in that account." *Kansas Electric Power Coop., Inc. v. Evergy Kansas Central, Inc.*, 176 FERC ¶ 61,083, at P 18 (2021) (Order on Rehearing). Furthermore, on rehearing the Commission expressly held that Evergy KC was not required to obtain prior approval to book project costs below the line upon cancellation. "We confirm that *there is no requirement to seek Commission approval* to use Account 183 to record preliminary survey and investigation charges, or to recover the preliminary project costs subsequently charged *to the appropriate operating expense accounts*." *Kansas Electric Power Coop., Inc. v. Evergy Kansas Central, Inc.*, 176 FERC ¶ 61,083 at P 16 (emphasis added). Therefore, on rehearing the Commission clarified that its statement that utilities are required to seek prior approval to recover cancelled project costs applied only to costs booked to Account 182.2 where inclusion of rate base is sought. When a utility seeks to *expense* cancelled project costs upon it can do so without prior approval just as utilities have always done.

Date: 2/11/2022

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-013 Accounting for Leases

AEP's response to data request JI 2-12 indicates that AEP has not performed an analysis on the impacts of Topic 842 on the OpCos Transmission Formula Rates. The Company should have stated "no impacts" to transmission rates due to the implementation of ASU 2016-02 Leases Topic 842, because FERC does not follow GAAP on leases. The lease treatment for FERC rates should not have changed. See also preliminary challenge JCG-2020-03 where it appears AEP has adversely affected the rate. For the foregoing reasons, the JCG challenges AEP's treatment of leases until AEP can perform an analysis on the impacts.

Response: The Company does not agree with this Preliminary Challenge. Please see JGC-2020-PC-13 Attachment 1 for a calculation of the impacts from this change.

Date: **2/11/2022**

JCG-2020-014 Sales and Use Taxes

AEP's response to data request JI 2-23 states, "The sales and use taxes excluded in the formula are those that operating companies collect on the sale of energy to customers in jurisdictions that require the collection and remittance thereof. The amounts recorded in account 923 reflect sales taxes on services provided by outside vendors of which AEP is final consumer." However, Sales & Use Taxes would be considered a component of the total payment for the services provided by the outside vendors and not tracked separately. Based on AEP's response, it is unclear to whom this "Sales & Use Tax Accrual" listed in Attachment "JI-50_Attachment_1," in the total amount of $84,014.84 is paid to either an outside vendor or a taxing authority. If it was paid to the outside vendor, it would not be a "Sales & Use Tax Accrual" but would be a component of the cost of services provided by the outside vendor. For the foregoing reasons, the JCG challenges the inclusion of this Sales and Use tax in the formula rate until further information can be provided.

Response: The Company does not agree with this Preliminary Challenge. The tax amount of $84,014.84 was paid directly to the taxing authority. The sales & use tax charges identified in attachment JI-50_Attachment_1 relate to the charge for the self-accrued use tax related to invoices where the vendor did not charge the sales & use tax. When a vendor does not include sales tax on its invoice for an otherwise taxable sale, AEP has an obligation to self-assess, report, and pay the compensating use tax on its taxable purchase. The use tax charged to account 923 is the expense side of the transaction. An offsetting credit is made to the 236 tax liability account. Account 236 is debited when the tax return is filed and paid.

Date: 2/11/2022

JCG-2020-015 Consolidated Income Taxes

AEP's response to data request JI 2-30 relates to AEP's accounting policy to recognize the OpCo's and TransCo's NOLs on a stand-alone basis. AEP needs to make the adjustment in this 2020 true-up for the inconsistency for the ADFIT to include a NOL carryforward that takes into account the income and expenses (i.e. NOL) of the consolidated group referenced in subpart JI-2-30.c in order to properly reflect the NOL on a stand-alone basis for each OpCo & TransCo.

As an illustrative example, if APCo reports an overall federal *taxable loss* for a tax year X, on a standalone basis this results in the recognition of a net operating loss carry-forward. On a standalone basis, APCo should record that net operating loss as a deferred tax asset as it represents a future deduction in a subsequent tax year in which APCo reports federal taxable income. To the extent that net operating loss is attributable to accelerated tax depreciation, the associated deferred tax asset is generally included as an increase to rate base.

However, given APCo is a member of the affiliated group for AEP Company, the federal taxable losses recognized by APCo can be used to reduce the federal taxable income reported by other affiliates. As such, rather than recording the net operating loss as a deferred tax asset, APCo would record a current tax receivable – which is excluded from rate base. APCo would then receive payment from AEP Company for use of APCo's taxable losses to reduce the taxable income for an affiliate.

Alternatively, if APCo reports federal *taxable income* for a tax year X, on a standalone basis this results in the recognition of an accrued taxes payable balance. As such, APCo is required to pay that amount to AEP Company. If a member of the affiliated group reports taxable losses that can be used to reduce the federal taxable income for the consolidated group, then that affiliate receives payment for use of those taxable losses to reduce the taxable income for the consolidated group.

For the foregoing reasons, the JCG challenges AEP's treatment of NOL ADIT as it does not appear AEP calculates the balance on a standalone basis but still reflects the consolidated tax agreement treatment of operating losses and income by affiliates.

Response: AEP agrees with this preliminary challenge. As AEP indicated in its Informational Filing submitted on November 1, 2021, AEP has transitioned its treatment of Deferred Tax Assets associated with NOLs to a stand-alone versus consolidated company basis. Accordingly, in its 2022 Projected Transmission rate filings, AEP treated Deferred Tax Assets associated with NOLs on a stand-alone basis. AEP will calculate the impact of implementing a stand-alone NOL for the 2020 true-up and include an adjustment in accordance with the protocols.

Date: **2/11/2022**

JCG-2020-016 Tax Effect of Permanent and Flow-Through Differences

> AEP's response to data request JI 2-32 indicates that it has included AFUDC Equity amounts related to production and distribution (See JI_2-32_Attachment_1). AEP should only be including AFUDC Equity associated with transmission. In addition, this attachment shows that AEP is including other flow through differences associated with non-transmission function related ADIT (e.g. Excel Row 19 – EFB – DFIT GENERATION PLANT and Excel Row 21 – Gain/Loss on ACRS/MACRS Property). The Commission has disallowed several types of permanent tax timing differences in the computation of the income tax calculation. AEP has failed to demonstrate each specific "Tax Effect of Permanent and Flow-Through Differences" being included in the formula rate on the TCOS tab. For the foregoing reasons, the JCG challenges the inclusion of the total amounts included in each of the OpCos and TransCos until further information can be provided.

Response: The Company does not agree with this Preliminary Challenge. The intention of JI 2-32 was to show a complete listing of difference descriptions, regardless of business unit. JI-68 Attachment 1 shows total company and transmission differences; however, only amounts associated with transmission business units are included in the formula rate filing. See JCG-2020-16 Attachment 1 for the Transmission only amounts being included in the formula rate.

Date: 2/11/2022

Discovery for 2020 ATRR True-up of Transmission Formula Rates in PJM
FERC Docket No ER17-405-000 and ER17-406-000 2020 ATRR

AMENDED Responses to Joint Customers
Set PC of Data Requests

Data Request JCG-2020-17:
Deferred Revenues

a. In reference to AEP's responses to JI 1-76 and JI 2-33, when asked about the deferred references in DEFD BK CONTRACT REVENUE (APCo, I&M, and OPCo), AEP has specifically stated that these deferred revenues are not recorded to a Revenue Account to which Transmission receives an allocation. Either transmission should receive an allocation of these revenues, or this ADIT amount should be excluded from the transmission formula.
b. In reference to AEP's responses to JI 1-77 and JI 2-34, when asked about the deferred references in PROVS FOR POSS REV REFDS and variations of this item which are reflected in "WS B-2 – Actual Stmt. AG" (I&M, AP TransCo, IM TransCo, KY TransCo, OH TransCo, WPCo, and OPCo), AEP has specifically stated that these deferred revenues are not recorded to a Revenue Account to which Transmission receives an allocation (i.e., Acct 4491003). Either transmission should receive an allocation of these revenues, or this ADIT amount should be excluded from the transmission formula.

For the foregoing reasons, the JCG challenges AEP's inclusion of the ADIT in subparts a. and b. above without the inclusion of the respective revenues.

Response:
The Company agrees with section a. of this preliminary challenge. In the response to data request 2-33, the Company indicated that account 451, miscellaneous service revenues, is not included in the formula. This was an incorrect statement. Account 451 is included in 'WS E, Rev Credits', and the formula includes the amount recorded to the transmission functional ledger as an offset in the revenue requirement.
AMENDED Response to part b. provided 3/9/2022:
The Company does not agree with section b. of this preliminary challenge. The Company sources the ADIT included in the formula rate from its transmission functional books.

Date: 3/9/2022

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-017 Deferred Revenues

a. In reference to AEP's responses to JI 1-76 and JI 2-33, when asked about the deferred references in DEFD BK CONTRACT REVENUE (APCo, I&M, and OPCo), AEP has specifically stated that these deferred revenues are not recorded to a Revenue Account to which Transmission receives an allocation. Either transmission should receive an allocation of these revenues, or this ADIT amount should be excluded from the transmission formula.

b. In reference to AEP's responses to JI 1-77 and JI 2-34, when asked about the deferred references in PROVS FOR POSS REV REFDS and variations of this item which are reflected in "WS B-2 – Actual Stmt. AG" (I&M, AP TransCo, IM TransCo, KY TransCo, OH TransCo, WPCo, and OPCo), AEP has specifically stated that these deferred revenues are not recorded to a Revenue Account to which Transmission receives an allocation (i.e., Acct 4491003). Either transmission should receive an allocation of these revenues, or this ADIT amount should be excluded from the transmission formula.

For the foregoing reasons, the JCG challenges AEP's inclusion of the ADIT in subparts a. and b. above without the inclusion of the respective revenues.

Response Superceded

Response: The Company agrees with this preliminary challenge. In the response to data request 2-33, the Company indicated that account 451, miscellaneous service revenues, is not included in the formula. This was an incorrect statement. Account 451 is included in 'WS E, Rev Credits', and the formula includes the amount recorded to the transmission functional ledger as an offset in the revenue requirement.

Date: 2/11/2022

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-018 Deferred Revenues – Fiber Optic Leases

In reference to AEP's responses to data requests JI 1-89b., JI 1-101b., JI 1-113b, JI 141b., JI 2-38a, JI-2-44a, 2-46a and 2-49, AEP has revenue associated with fiber optic leases whereby the underlying expenses are recorded in Account 921 or 935. However, AEP has failed to include this revenue in the formula rate template based on a "labor" allocator to offset the expenses being included in the transmission formula rate. For the foregoing reasons, the JCG challenge's AEP's treatment of these revenues as either AEP need to include the revenues based on a "labor" allocator or remove the expenses from Account 921.

Response: The Company does not agree with this Preliminary Challenge. The formula rate defines the accounts that will be included for recovery in the formula and how they will be allocated. The 'WS E Rev Credits' formula does not contemplate the inclusion of accounts 4116000 or 4190002 as a source of revenue credits. Because there is some variation in how the different operating companies record these transactions for APCO transmission the gain is being amortized to account 108, which means that gain is being included as an offset to rate base.

Regarding the expense side of these transactions that are recorded to account 921, the formula does not require specific adjustments to A&G expenses beyond those already defined in lines 80 through 92 of the formula TCOS tabs.

Date: 2/11/2022

AEP EAST 2021 OpCo and 2021 TRANSCO
PJM Transmission Formula Rate Update

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-019 Deferred Revenues – Fiber Optic Leases

> In reference to AEP's responses to data requests JI 1-89c., JI 1-101b., JI 1-113c., JI 141b., JI 2-38a., JI-2-44a. and 2-46a. AEP has revenue associated with fiber optic sales. AEP failed to demonstrate the FERC accounts where the original assets were recorded. To the extent that these assets were previously recorded in accounts included in the formula rate template, AEP should be including these revenues in the formula rate template based on the same allocator the original assets were recorded. For the foregoing reasons, the JCG challenge's AEP's treatment of these revenues.

Response: The Company does not agree with this Preliminary Challenge. The deferred gain associated with the past sales of fiber optic cables was deferred in a sub-account of FERC account 253. These gains are amortized monthly on a straight-line basis. The amortization credit is recorded to account 4510001, Miscellaneous Service Revenues. Because FERC account 451 is included as a revenue credit on 'WS E Rev Credits' of the formula rate, to the extent they are recorded on the transmission functional books these amortization credits are also being included in the formula rate. See JCG-2020-PC-19 Attachment 1 for amount of credits being included in each company's formula rate for 2020.

Date: 2/11/2022

AEP EAST 2021 OpCo and 2021 TRANSCO
PJM Transmission Formula Rate Update

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-020 Excess ADFIT for Generation, Transmission, and Distribution

In reference to AEP’s responses to JI 1-93 and JI 2-39, APCo has not provided a detailed listing of the various items that compose the Excess ADFIT for any function. AEP’s statement that these are related to timing differences under TCJA is vague and does not allow for customers to replicate their position for the amounts per function. For the foregoing reasons, the JCG challenges these balances until further information can be provided.

Response: The Company does not agree with this Preliminary Challenge. Please see JCG-2020-20 Attachment 1 for the details of APCo's initial TCJA re-measurement at 01-01-2018 for both Total Company and the Transmission Function. The subtotals for each account in excel columns H & I will tie to Column F of WS B-3 in APCo's formula rate. Please see the Company's filing in Docket No. ER20-1886-000 for more information on the re-measurement; note that the Commission has yet to rule on this application. Finally, the Commission does not require an item-by-item breakdown as Joint Customers seem to suggest.

Date: **2/11/2022**

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-021 Assets Placed in Service

> In reference to AEP's response to JI 2-51, AEP indicates that the original assets were paid through a CIAC. It is unclear why the customer did not also pay for the rebuild of the College Corner substation. AEP has not demonstrated how these assets support NITS service in IMTCo. For the foregoing reasons, the JCG challenges the inclusion of these assets until further information can be provided.

Response: The Company does not agree with this Preliminary Challenge. Data request 1-153 was originally interpreted as referring to separate connections to this station that are related to a nearby IPP facility, and the response to 1-153 reflected this misunderstanding. However, in the response to the JCG's follow-up question in data request 2-51, the Company explained that the College Corner station was an IM Transco facility that was rebuilt due to material performance, condition, and risk issues and further noted that the two transmission lines were part of this project, specifically stating that: "In order to rebuild the station, the Company had to rebuild the station entrance (the last span that enters the station and the first structure outside the station fence). This is what constituted the new IMTCO assets." These rebuilt spans are part of an interconnection with Duke Energy.

This project to rebuild the College Corner was presented to PJM Stakeholders in the Sub Regional RTEP Committee meeting held on 12/18/2017 as project 'S1426- College Corner Rebuild'. See attachment JCG-2020-PC-21 Attachment 1 for information provided in that meeting.
Further referring to the response in 1-153, note that the costs of interconnection for the IPP were paid by the IPP developer, and those costs are excluded from recovery in the Company's formula rate.

Date: 2/11/2022

AEP EAST 2021 OpCo and 2021 TRANSCO
PJM Transmission Formula Rate Update

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-022 Acquisition of Transmission Assets

In reference to AEP's response to JI 2-54, AEP indicates that the costs related to W/O # 4257887602, which consists of three items totaling $758,186 had been placed in service during June 2018. It is unclear which FERC account AEP recorded this plant. To the extent that AEP recorded this plant to an account that is depreciated, the JCG challenges AEP's classification of this plant as right of ways should not be depreciated.

Response: The Company does not agree with this Preliminary Challenge. In order to build its assets, Ohio Transco incurred costs to prepare the ROW owned by AEP Ohio, and used by Ohio Transco pursuant to a license between the two Companies. These costs were not recorded in plant account 35010 on Ohio Transco's books because the costs are not for the acquisition of AEP Ohio's easements. Because of limitations in the plant accounting system, these costs had to be recorded on AEP Ohio's books, and then transferred from AEP Ohio to Ohio Transco books once construction was completed. These costs were recorded on Ohio Transco's books, on a pro-rata basis, to the depreciable plant accounts in which the related project assets were recorded. In this specific case, which related to a 69kV line extension, the $786K was recorded to account 355 (Poles and Fixtures) for $463K and account 356 (Overhead Conductor) for $296K.

Date: 2/11/2022

JCG-2020-023 Recovery of General Plant Depreciation Expense Related to Unapproved Asset Retirement Obligations (AROs)

a. AEP's response to JI 1-25 indicates that no AROs components included in the 2020 ATRRs. However, in AEP's response to JI 1-136, OPCo has included the depreciation expense associated with General Plant ARO in the transmission formula rate. The associated general plant ARO and accumulated depreciation is correctly being removed from the template on the "TCOS" tab, Lines 26 and 37. However, there is no corresponding adjustment for the removal of the associated depreciation expense. The Joint Customer Group challenges the inclusion of unapproved ARO General Plant depreciation expense in its formula rate.

In the Audit Report issued in FERC Docket No. FA12-12, FERC Audit Staff stated:

> It is audit staff's understanding that ARO costs were included in LG&E and KU's formula rate calculation since inception of the formula rate. Based on Commission requirements, audit staff believes no aspect of the ARO should have been included in formula rate billings to wholesale power and transmission customers, absent KU and LG&E seeking approval from the Commission to include ARO amounts in formula rate determinations. This would have afforded the Commission the opportunity to request further information regarding KU and LG&E's accounting and the impacts of including ARO amounts to determine the annual revenue requirement. KU and LG&E should refund amounts previously collected from wholesale power and transmission customers related to their ARO obligations.[3]

AEP has not sought specific approval to include AROs in its transmission formula rates; therefore, all aspects of AROs should be removed accordingly.

b. Similarly, I&M Power, Kingsport Power, and Wheeling Power have included ARO depreciation expense in each of their individual formula rate templates on TCOS Line 101. Joint Customer Group challenges these items for the reason noted in part a of this challenge.

Response: AEP does not agree with this preliminary challenge. The Commission regulations require public utilities to record the present value of the liability for all asset retirement obligations. *See* 18 C.F.R. § Part 101, General Instruction 25(B); *Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations*, Order No. 631, 103 FERC ¶ 61,021, at P 5 (2003). Additionally, the entity is to capitalize this amount as part of the cost of the plant and depreciate it over the useful life of the related asset. *Id.* The regulations provide that the accounting for asset retirement obligations does not affect jurisdictional entities' ability to seek recovery of costs arising from asset retirement obligations in rates, but if billings under formula rate tariffs were affected by the adoption of Order No. 631, the jurisdictional entity must obtain approval from the Commission prior to implementing the change for tariff billing purposes. Order No. 631, 103 FERC ¶ 61,021 at PP 6, 61; 18 C.F.R. § 35.18(b). AEP's approved formula

[3] At P 33.

rate specifically includes the depreciation expense for asset retirement costs recorded in Account 403.1 in recoverable depreciation expense. PJM OATT Attachment H-14B Part 1, Page 3, lines 98-102. This was accepted by the FERC in its orders accepting the AEP East Operating Company formula rate in Docket No ER08-1329-000 and the AEP East Transmission Company formula rate in Docket No ER10-355; nor did the FERC change this treatment in its acceptance of the changes to the formulas agreed to in the settlements filed in Docket Nos. ER17-405-000 and ER17-406-000. Thus, the preliminary challenge is unfounded.

Date: 2/11/2022

JCG-2020-024 Incorrect Treatment of CIAC-related ADIT and Deficient ADIT in the Formula Rate Templates

Please refer to the list of CIAC ADIT items included in each of AEP's templates.

APCO - WS B-2 - Actual Stmt. AG

a. Excel Row 21 - 2.05 - CIAC - BOOK RECEIPTS-DISTR -SV - $870,682 (2019)
b. Excel Row 22 - 2.06 - CIAC - BOOK RECEIPTS-TRANS - $203,424 (2019)
c. Excel Row 23 - 2.07 - CIAC - BOOK RECEIPTS-DISTR -SW $125,739 (2019)
d. Excel Row 21 - 2.05 - CIAC - BOOK RECEIPTS-DISTR -SV - $951,381 (2020)
e. Excel Row 22 - 2.06 - CIAC - BOOK RECEIPTS-TRANS - $203,424 (2020)
f. Excel Row 23 - 2.07 - CIAC - BOOK RECEIPTS-DISTR -SW $128,339 (2020)

I&M - WS B-2 - Actual Stmt. AG

g. Excel Row 22 - 2.06 - CIAC - BOOK RECEIPTS - $724,864 (2019)
h. Excel Row 22 - 2.06 - CIAC - BOOK RECEIPTS - $1,280,258 (2020)

I&M Transco- WS B-2 - Actual Stmt. AG

i. Excel Row 19- 2.03 - CIAC - BOOK RECEIPTS - $914,475 (2019)
j. Excel Row 19- 2.03 - CIAC - BOOK RECEIPTS - $1,678,559 (2020)

KgPCO - WS B-2 - Actual Stmt. AG

k. Excel Row 18- 2.02 - CIAC - BOOK RECEIPTS - $10,477 (2019)
l. Excel Row 18- 2.02 - CIAC - BOOK RECEIPTS - $10,477 (2020)

KPCO - WS B-2 - Actual Stmt. AG

m. Excel Row 19- 2.03 - CIAC - BOOK RECEIPTS - $78,968 (2019)
n. Excel Row 19- 2.03 - CIAC - BOOK RECEIPTS - $113,646 (2020)

OPCO - WS B-2 - Actual Stmt. AG

o. Excel Row 21- 2.05 - CIAC - BOOK RECEIPTS - $1,904,005 (2019)
p. Excel Row 21- 2.05 - CIAC - BOOK RECEIPTS - $2,005,476 (2020)

WPCo - WS B-2 - Actual Stmt. AG

q. Excel Row 20- 2.04 - CIAC - BOOK RECEIPTS - $283,472 (2019)
r. Excel Row 20- 2.04 - CIAC - BOOK RECEIPTS - $283,472 (2020)

WV Transco – WS B-2 – Actual Stmt. AF

s. Excel Row 35 – 5.08 - CIAC - BOOK RECEIPTS - $(194,250) (2019)
t. Excel Row 35 – 5.08 - CIAC - BOOK RECEIPTS - $(194,250) (2020)

The CIAC amount including gross-up is taxable for income tax purposes. All CIAC associated amounts (plant, accumulated depreciation, ADIT, etc.) are to be excluded from transmission formula rates since the CIAC agreements are not part of the formula rate and only apply to the individual contributor that the CIAC agreement relates. CIAC is not to be socialized for FERC rate making purposes. Specifically, Commission precedent[4] finds that

[4] Tampa Electric Co., et al., 151 FERC ¶ 61,013, at P 65, n.115 (2015) (citing American Mun. Power-Ohio, Inc. v. Ohio Edison Co., 57 FERC ¶ 61,358 (1991), reh'g denied, 58 FERC ¶ 61,182 (1992) and Trailblazer Pipeline Co., 55 FERC ¶ 61,050 (1991)) (stating, "whether taxes are grossed-up or spread out over time, the contributor

> consistent with our direction in the First Compliance Order, to the extent that Florida Parties propose to account for or recover tax effects of a CIAC, we require the associated tax effect be considered as part of the total project cost in the cost benefit analysis, and therefore include the calculation in their cost recovery provisions. We also remind Florida Parties that the opportunity for recovery of the tax effects of CIACs is at the time that the utility seeks the required Commission approval for that lump sum payment and **may not be recovered at some later point outside of the transaction from entities other than the contributor** [bold added].

Furthermore, in FERC Docket No. ER19-1503, Entergy requested revisions to its tariff to exclude CIAC ADIT. On August 19, 2019, the Commission determined that:

> 20. We find that the proposed revisions to the MISO Tariff are consistent with cost causation principles and are just and reasonable and not unduly discriminatory. The ADIT Worksheet in the Entergy Operating Companies' transmission formula rate templates generally excludes ADIT subaccounts that do not relate to the Attachment O transmission revenue requirement calculation. As the Filing Parties explain, the proposed changes to the CIAC ADIT Accounts are consistent with the treatment of other sub-accounts under Accounts 190 and 282 that do not impact the revenue requirement calculation.
>
> 21. The CIAC amounts that gave rise to the CIAC-ADIT Accounts offset the expenditures for the projects and thus do not affect the Entergy Operating Companies' annual transmission revenue requirements. **Since the CIAC is not included in the calculation of the annual transmission revenue requirements, we find Entergy's proposal to change the classification of the CIAC ADIT Accounts to similarly exclude the tax effects of the CIAC from the annual transmission revenue requirements is just and reasonable and consistent with cost causation principles** and Commission precedent.

AEP's treatment of the CIAC-related ADIT is inconsistent with the FERC guidance referenced above. AEP's inclusion of the CIAC-related ADIT in rate base essentially recovers the tax effects of CIACs at a later point from entities that were not parties to the CIAC agreement (*i.e.*, socialized to all transmission customers), which is exactly the opposite of the cited FERC precedent. In addition, AEP has inappropriately included CIAC related to distribution plant. Therefore, the Joint Customer Group challenge the inclusion of CIAC-related ADIT in transmission rate base and any associated deficient CIAC-related ADIT resulting from the TCJA that has or will be amortized through the income tax allowance.

Response: AEP does not agree with this preliminary challenge. The Joint Customer Group argues that CIAC-related ADIT should not be included in AEP's transmission rate base. FERC has rejected this argument 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.*,

making the CIAC would pay the full cost of its contribution, including its tax effect, which would be determined as part of that transaction filed with the Commission for approval").

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 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.

Please note that the case cited in the challenge (*Tampa Electric Co.*, et al. 151 FERC ¶ 61,013 (2015)) is not relevant to the CIAC-ADIT issue. That case addressed the issue whether CIAC should be grossed up as part of the cost-benefit evaluation of a proposed transmission project in connection with the Order No. 1000 regional planning process. It has nothing to do with the issue of whether ADIT related to CIAC is allowed to be included in the public utility's annual transmission revenue requirement.

Date: 2/11/2022

JCG-2020-025 ADIT Related to SFAS 158

In response to JI 1-72 and 1-75, AEP indicated that the ADIT related to the FAS 158 Qual Contra asset on the "WS C-Working Capital" tab is "Accrued Bk Pension Expense – SFAS 158." AEP excludes 100% of the FAS 158 Qual Contra asset – a would be rate base deduction – from the revenue requirement calculation. Despite excluding the rate base credit on WS C – Working Capital, AEP proposes to include the related ADIT. This is inherently unreasonable and the Joint Customer Group challenges the inclusion of ADIT related to the FAS 158 Qual Contra asset in rate base.

APCO - WS B-2 - Actual Stmt. AG

a. Excel Row 80 - 2.64 - ACCRD OPEB COSTS - SFAS 158 - $148,387 (2019)
b. Excel Row 80 - 2.64 - ACCRD OPEB COSTS - SFAS 158 - $181,570 (2020)

I&M - WS B-2 - Actual Stmt. AG

a. Excel Row 36 - 2.20 - ACCRD OPEB COSTS - SFAS 158 - $1,942,945 (2019)
b. Excel Row 36 - 2.20 - ACCRD OPEB COSTS - SFAS 158 - $1,559,144 (2020)

KPCo - WS B-2 - Actual Stmt. AG

a. Excel Row 73 – 2.57 - ACCRD OPEB COSTS - SFAS 158 - $203,598 (2019)
b. Excel Row 73 – 2.57 - ACCRD OPEB COSTS - SFAS 158 - $227,291 (2020)

KgPCo - WS B-2 - Actual Stmt. AG

a. Excel Row 39 – 2.23 - ACCRD OPEB COSTS - SFAS 158 - $20,671 (2019)
b. Excel Row 39 – 2.23 - ACCRD OPEB COSTS - SFAS 158 - $19,021 (2020)

OPCo - WS B-2 - Actual Stmt. AG

a. Excel Row 97 – 2.81 - ACCRD OPEB COSTS - SFAS 158 - $465,539 (2019)
b. Excel Row 97 – 2.81 - ACCRD OPEB COSTS - SFAS 158 - $409,100 (2020)

Response: AEP disagrees with this preliminary challenge. The formula rate is being followed as approved. The functionalized portion of these expenditures are recoverable in the formula, and it is appropriate to recognize the carrying cost of the related ADIT item in the formula rate. This challenge is a collateral attack on AEP's approved formula rate.

Date: 2/11/2022

JCG-2020-026 ADIT Related to Uncollectible Accounts

In response to JI 1-75, AEP indicates that it includes allocates ADIT related to FERC Account No. 904, Uncollectible Accounts, to the transmission function because "they are recorded to the Company's transmission functional books," despite the fact that neither FERC Account No. 904 nor its related account, FERC Account No. 144, Accumulated Provision for Uncollectible Accounts – Credit, are inputs to the formula rate template. It is not clear why AEP would record any of these amounts to the "transmission functional books." Regardless, AEP's proposed rate treatment is inappropriate and the Joint Customer Group challenges the inclusion of this ADIT in transmission rate base.

APCO - WS B-2 - Actual Stmt. AG

a. Excel Row 40 – 2.24 - BK PROV UNCOLL ACCTS - $(4,189) (2019)
b. Excel Row 40 – 2.24 - BK PROV UNCOLL ACCTS - $(4,189) (2020)

I&M - WS B-2 - Actual Stmt. AG

a. Excel Row 47 – 2.31 - BK PROV UNCOLL ACCTS - $715 (2019)
b. Excel Row 47 – 2.31 - BK PROV UNCOLL ACCTS - $0 (2020)

Response: AEP disagrees with this preliminary challenge. The formula rate is being followed as approved. The formula utilizes balances for ADIT to be included in rate base based on the transmission functional books, and it is appropriate to recognize the carrying cost of these related ADIT items in the formula rate. This challenge is a collateral attack on AEP's approved formula rate.

Date: 2/11/2022

JCG-2020-027 Unfunded Reserves

In its implementation of its formula rate templates for its OpCos, AEP included three unfunded reserves as rate base credits: (1) Accum Prv I/D Worker's Com, (2) Accm Prv I/D – Asbestos – Curr, and (3) Accm Prv I/D – Asbestos. However, in reference to AEP's JI_9_Attachment_1 and JI 2-5, AEP has indicated that it has reserve balances included on its books related to items where the underlying expense or associated balance (e.g. prepaid pension) was included in the formula rate template. Each of AEP's OpCos and TransCo's include Note Y which states "The cost of service will make a rate base adjustment to remove unfunded reserves associated with contingent liabilities recorded to Accounts 228.1-228.4 from rate base." With reference to this preliminary challenge, the JCG provides the following explanation as it relates to unfunded reserves included in Accounts 228.1 – 228.4. AEP has failed to provide the customers with a reduction in rate base for the "Unfunded Reserves" associated with each of the accrued items identified in the foregoing data responses. AEP should have recorded each unfunded reserve as a reduction to rate base to reflect the fact that customers fund these accrued "expenses" that have not yet been incurred, and thus are providing a source of cost-free capital to the utility. FERC stated in an order in Docket No. ER14-2751-000 as follows:

> [W]e find that XEST's formula rate template should recognize unfunded operations and maintenance costs reserves as a form of cost-free financial capital to XEST. Utilities may accrue monies through charges to operation and maintenance expense to fund contingent liabilities, and such accrued reserves should be deducted from rate base until they are used to fund the liabilities because such reserves represent a cost- free form of financial capital from customers to utilities, not unlike accumulated deferred income taxes (ADIT) which are deducted from rate base. Accordingly, we direct XEST, in a compliance filing, to propose revisions to its formula rate template to credit any unfunded reserves against rate base.[5]

Moreover, The Commission's use of the phrase "contingent liabilities" appears to be lifted from intervenor protests and utilized without any substantive scrutiny as to the technical accuracy of the phrase itself. For example, see the following language taken from page 42 of Golden Spread's protest in the *XEST* docket cited above (emphasis added):

> **Utilities routinely establish contingent liabilities and accrue monies through charges to operation and maintenance expenses to fund such liabilities**. Often such contingent liability accruals are unfunded – i.e., the cash accumulated by such accruals is not set aside in escrow but instead is treated as customer-contributed capital available for unrestricted use by the utility until an event

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[5] See *Xcel Energy Southwest Transmission Co., LLC*, 149 FERC ¶ 61,182, at P 97 (2014) ("XEST"); *Transource Wisconsin, LLC*, 149 FERC ¶ 61,180, at P 43 (2014); *see also NextEra Energy Transmission West, LLC*, 154 FERC ¶ 61,009, at P 125 (2016) ("[I]n the past the Commission has directed entities to revise their formula rate templates to 'credit any unfunded reserves against rate base.'"). Working capital includes capital supplied by investors (i.e., cash working capital, prepayments, and materials and supplies) and capital supplied by customers (i.e., unfunded reserves).

> occurs that requires such cash to be used to pay for a qualifying event covered by a contingent liability. **Examples of some of these common unfunded accruals are associated with certain non-qualifying pension programs, vacation accruals, injuries and damages reserve accruals, storm damage accruals, unpaid sick leave accruals and severance accruals**. When utilities use such unfunded accruals to cover future obligations, those accruals should be included in the allocated cost of service as credits (i.e., reductions) to rate base so that the utility does not utilize customer-contributed capital without compensation.

The Commission accepted this phrase exactly as described – that is, the Commission made no correction to indicate that "contingent liabilities" in the context of unfunded reserves should not include certain of the examples provided by Golden Spread because these items may not meet the technical definition of "Contingent Liabilities" as defined in the Uniform System of Accounts. It stands to reason, then, that the purpose of the Commission's orders was to require utilities to recognize sources of cost-free capital as reductions to rate base, *consistent with a plethora of prior Commission orders that reached the same conclusion*, rather than to introduce a new criteria into the measurement of cost-free capital that (1) it does not use in any other ratemaking context, (2) had no reason to introduce, and (3) has no bearing whatsoever on whether the amounts in question are sources of cost-free capital to the utility.

For the foregoing reasons, the JCG challenges AEP's decision to exclude from unfunded reserves any FERC Account No. 228.1 – 228.4 balances shown on JI_9_Attachment_1 for which the related expense accrual is included in the formula rate template following reserves.

Response: AEP does not agree with this preliminary challenge. The XEST order, and AEP's approved formula rate templates, specifically limit Unfunded Reserves to liabilities that are contingent. AEP disagrees with the challenge's definition of contingent liabilities. *Xcel Energy Sw. Transmission Co.*, 149 FERC ¶ 61,182, at P 97 (2014) (describing unfunded reserves as money accrued from customers to fund contingent liabilities); *Xcel Energy Transmission Dev. Co., LLC*, 149 FERC ¶ 61,181, at P 35 (2014). AEP relies on Commission precedent and the FERC USofA definition of contingent liabilities which states: Contingent liabilities include items which may under certain conditions become obligations of the utility but which are neither direct nor assumed liabilities at the date of the balance sheet. 18 C.F.R. Part 101, General Instruction No. 15. The Company believes it has accurately reflected the appropriate contingent liabilities in its formulas. Additional balances in account 228 that are shown in the response to JI 1-9 represent liabilities that AEP knows will occur at the date of the balance sheet and thus are not contingent. Further, the valuation changes recorded for SFAS 112 postemployment benefits in account 2283005 are offset by a regulatory balance sheet account and not included in the formula rate.

Date: **2/11/2022**

Responses to Joint Customer Group Preliminary Challenges

JCG-2020-028 Order 864 Compliance

To the extent that the outcome of AEP's pending TCJA filing in FERC Docket Nos. ER20-1886 and ER20-1888 affects amounts included in the 2021 OpCo and TransCo Updates, the JCG reserves the right to challenge items included under AEP's Order 864 compliance filing as it relates to this update.

Response:

The Company neither agrees not disagrees with this Preliminary Challenge. The JCG's ability to address their concerns as they arise out of the FERC's ruling in the Company's order 864 applications will be governed by the Commission's administrative rules.

Date: 2/11/2022