

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Review of the 2015 :
Delivery Capital Recovery Rider :
Contained in the Tariffs of Ohio Edison : Case No. 15-1739-EL-RDR
Company, The Cleveland Electric :
Illuminating Company, and The Toledo :
Edison Company. :

**INITIAL COMMENTS
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO**

On August 25, 2010, the Commission issued an Opinion and Order in Case No. 10-388-EL-SSO¹ (ESP II Case) that approved a modified stipulation authorizing FirstEnergy to establish a delivery capital recovery rider (Rider DCR) effective January 1, 2012. Rider DCR provides for recovery of property taxes, commercial activity tax, and associated income taxes, along with the opportunity to earn a return on and of plant-in-service associated with distribution, subtransmission, and general and intangible plant. Additionally, under the terms of the ESP II stipulation, FirstEnergy agreed to submit to an annual audit review process of Rider DCR. Thereafter, on July 18, 2012, the

¹ *In re Application of Ohio Edison Co., The Cleveland Electric Illuminating Co., and the Toledo Edison Co. for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143, in the Form of an Electric Security Plan*, Case No. 10-388-EL-SSO (August 25, 2010 Opinion and Order) (“ESP II Case”).

Commission issued an Opinion and Order in Case No. 12-1230-EL-SSO² (ESP III Case), approving a modified stipulation extending the stipulation approved in the ESP II Case.

By Entry issued December 9, 2015, the Commission selected Blue Ridge Consulting Services, Inc. (Blue Ridge) to conduct the 2015 annual audit and investigation of FirstEnergy's Rider DCR. On April 22, 2016, Blue Ridge submitted its compliance audit of FirstEnergy's Rider DCR. On May 24, 2017, the Attorney Examiner issued an Entry calling for comments and reply comments on the audit report to be filed no later than June 23, 2017, and July 24, 2017, respectively.

Staff has reviewed the findings and recommendations contained in the Blue Ridge Annual Rider DCR Compliance Audit Report (Blue Ridge Report) and recommends the Commission adopt the results of the Blue Ridge Report subject to the below recommendations.

Specifically, Recommendations 1 through 9 are a series of quantitative adjustments that should be adopted and the DCR revenue requirement adjusted to reflect their cumulative impact. In Recommendations 10 and 11, the Staff has additional recommendations beyond the Blue Ridge recommendations. Staff's recommendations are as follows:

² *In re Application of Ohio Edison Co., The Cleveland Electric Illuminating Co., and the Toledo Edison Co. for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143, in the Form of an Electric Security Plan*, Case No. 12-1230-EL-SSO (July 18, 2012 Opinion and Order) ("ESP III Case").

I. Blue Ridge Quantitative Recommendations

Recommendation 1

Blue Ridge recommends that the Toledo Edison account 390 leasehold improvements overstatement of \$106,751 be corrected in future Rider DCR filings. Staff agrees with the recommendation.

Recommendation 2

Blue Ridge recommends that the overstatement of \$5,977 regarding the Toledo Edison account 390 exclusion for reserve associated with leasehold improvements be corrected in future Rider DCR filings. Staff agrees with the recommendation.

Recommendation 3

Blue Ridge recommends that a reconciliation of the Rider DCR revenue requirement be included in the next filing that incorporates the cumulative effect of the corrections needed to be made in the EDR(g) exclusions. Staff agrees with the recommendation.

Recommendation 4

Blue Ridge recommends that a reconciliation of the Rider DCR revenue requirement be included in the next filing that incorporates the effect on revenues had the additional \$3,413.43 of AMI-related charge been appropriately excluded. Staff agrees with the recommendation.

Recommendation 5

Blue Ridge recommends that a reconciliation of the Rider DCR revenue requirement be included in the next filing that incorporates the effect on revenues had the

December 2014 through February 2015 ATSI Land Lease exclusion value activity been incorporated beginning with the actual February 28, 2015 plant balances. Staff agrees with the recommendation.

Recommendation 6

Blue Ridge recommends that a reconciliation calculation be included in the next Rider DCR filing to reflect the cumulative revenue requirement impact regarding the non-jurisdictional work under FirstEnergy Company ITS-SC-M-00041-1 that should have been excluded from Rider DCR. Staff agrees with the recommendation.

Recommendation 7

Blue Ridge recommends that a reconciliation calculation be included in the next Rider DCR filing to reflect the cumulative revenue requirement impact regarding the non-jurisdictional work under FirstEnergy Company ITS-SC-M-000178-1 that should have been excluded from Rider DCR. Staff agrees with the recommendation.

Recommendation 8

Blue Ridge recommends that a reconciliation calculation be included in the next Rider DCR filing to reflect the cumulative revenue requirement impact (in the form of depreciation and property tax expense) that results from the inclusion of the pension adjustments that did not have retirements recorded. Staff agrees with the recommendation.

Recommendation 9

Blue Ridge recommends that FirstEnergy move the residual pension asset balances associated with FERC account 303 that were residing in unspecified locations as of September 2015 to specified locations. Staff agrees with the recommendation.

II. Staff's Additional Recommendations

Recommendation 10

Blue Ridge expressed concern regarding the project planning process related to non-IT related projects. Blue Ridge recommended that the FirstEnergy be directed to review the planning process related to non-IT-related projects to ensure that the methodology ensures that projects are fully scoped prior to execution. Staff concurs with Blue Ridge's recommendation and notes that this was also a finding and recommendation made by Blue Ridge in Case No.16-2041-EL-RDR, the 2016 FirstEnergy Annual Rider DCR Compliance Audit. As this concern and recommendation has been known to FirstEnergy, Staff recommends that the 2017 FirstEnergy Annual Compliance Audit not only ascertain that such a review by the Companies has occurred but also assess the sufficiency of the changes.

Recommendation 11

Staff recommends that the Commission direct FirstEnergy to take steps ensure that the recording of retirements takes place at or before plant additions are recorded to plant in service. In addition, Staff recommends that the 2017 FirstEnergy Annual Compliance audit assess the Companies resolution of this matter.

Respectfully submitted,

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PROOF OF SERVICE

I hereby certify that a true copy of the foregoing **Initial Comments** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail upon the following Parties of Record, this 23rd day of June, 2017.

/s/ Steven L. Beeler

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Summary: Comments Initial Comments electronically filed by Mrs. Tonnetta Y Scott on behalf of PUCO