

**Public Utilities
Commission**

Asim Z. Haque, Chairman

RECEIVED-DOCKETING DIV

Commissioners

M. Beth Trombold
Thomas W. Johnson
Lawrence K. Friedeman
Daniel R. Conway

2018 NOV -8 PM 4:11

November 8, 2018 PUCO

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

RE: *In the Matter of the Review of the Smart Grid Modernization Initiative Contained in the Tariffs of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company, Case No. 16-2166-EL-RDR.*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the review of the Smart Grid Modernization Initiative filed by Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company, in Case No. 16-2166-EL-RDR.

Tamara S. Turkenton
Director, Rates and Analysis Department
Public Utilities Commission of Ohio

David Lipthratt
Chief, Research and Policy Division
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business.
Technician ve Date Processed 11/9/18

**Cleveland Electric Illuminating Company
Ohio Edison Company
Toledo Edison Company
Case No. 16-2166-EL-RDR (Rider AMI)**

SUMMARY

On February 28, 2018, Cleveland Electric Illuminating Company, Ohio Edison Company, and The Toledo Edison Company (FirstEnergy or The Company) filed their application (Application) for the annual review of 2017 costs applicable to the Advanced Metering Infrastructure/Modern Grid Rider (Rider AMI). Rider AMI is a non-bypassable rider, approved by the Commission as the mechanism for recovering the costs related to the deployment of smart grid and advanced metering infrastructure as originally approved in Case No. 07-551-EL-AIR.

In its order in Case No. 10-388-EL-SSO¹, the Commission provided guidance on matters related to Rider AMI and costs that could be recovered through this rider. The Commission authorized FirstEnergy to collect smart grid costs that it incurred as part of its pilot program over a ten-year period through Rider AMI, with quarterly adjustments to the rate. The rider is billed monthly on a fixed customer charge basis.

In Case No. 14-1297-EL-SSO², the Commission ordered that the rider shall continue and that FirstEnergy shall file a grid modernization business plan highlighting future initiatives for Commission consideration and approval. Any portion of the plan approved by the Commission shall be recoverable by FirstEnergy through Rider AMI, which will be updated and reconciled on a quarterly basis, and will remain in effect until such costs are fully recovered.

STAFF REVIEW AND RECOMMENDATIONS

Staff's review of the Application was designed to ensure that FirstEnergy's policies and practices comport with sound ratemaking principles and Commission policies, confirm that its books and records are reliable sources of financial data, and ultimately determine if the application is just and reasonable.

In its review, Staff examined the as-filed schedules for consistency with the Commission's Opinion and Orders in previous smart grid cases and to ensure proper accounting treatment was applied. The audit consisted of a review of the financial statements for completeness, occurrence, presentation, valuation, allocation, and accuracy. Staff conducted this audit through a combination of document review, interviews, and interrogatories. Staff requested documentation as needed to determine that the costs were substantiated or to conclude that an adjustment was warranted.

¹ Case No. 10-338-EL-SSO, August 25, 2010 Opinion and Order at 13-14

² Case No. 14-1297-EL-SSO, March 31, 2016 Opinion and Order at 9-10

Out of Period Expenses

FirstEnergy included expenses related to journal corrections for switches and cable purchased outside of the test year period. Staff finds that these items are not appropriate to include for recovery in this rider as they result in an out of period adjustment, and therefore recommends a reduction totaling \$1,043.

Software & License Expense

FirstEnergy included an additional tax expense related to a software and license expense that Staff finds to be not appropriate to include for recovery in Rider AMI. During its investigation, Staff discovered that the associated invoice showed an amount lower than the amount claimed to have been paid. Therefore, Staff recommends a reduction to the rider totaling \$746.

Miscellaneous Travel Expenses

FirstEnergy included fees for airfare, room, flight change, and sundries totaling \$614. In response to Staff DR 2, the Company stated that these costs should be removed. Staff determined that an additional \$536 for rental car and flight change fees was unnecessary and also should be removed. Staff recommends a total reduction of \$1,150.

Short-Term Incentive Program Pay

FirstEnergy included \$77,384 in Short-Term Incentive Program (STIP pay) for recovery in Rider AMI. Of this total, \$56,063 was allocated to O&M expenses and \$21,321 was allocated to capitalized expenses.³ The STIP pay was based on achievement of Key Performance Indicators (KPIs) which include safety, operational (including reliability), and financial categories.⁴ Through Staff's investigation, Staff determined that \$61,422 in STIP was not directly and exclusively based on safety or reliability-related KPIs, and should be removed.⁵ Based on the Company's allocation, this adjustment results in recommended reductions of \$44,500 and \$16,922 to O&M expenses and capitalized expenses, respectively.

Capital Expenditure Correction

FirstEnergy included in its Application an incorrect calculation of capital expense for August 2017. Staff discovered that \$161,698 of Operation and Maintenance (O&M) expenses were erroneously classified as capital expenses within the Company's revenue requirement schedules. Actual capital expenditures for the month totaled \$2,096, however the Company's filing indicated the amount was \$163,794. The correction of this error results in a reduction to the rate base of \$124,964 as of December 31, 2017. Staff recommends that this correction be made.

³ See response to Staff DR #6.

⁴ See response to Staff DR #8

⁵ See response to Staff DR #12

CONCLUSION

The Staff has completed its review of the filing and finds that FirstEnergy has appropriately included in Rider AMI only those costs, with the exceptions noted, that were incurred as a result of serving its customers in Ohio. Staff recommends that the Company correct its August 2017 expenditures to reflect an increase of O&M expenditures by \$161,698 and decrease August 2017 capital expenditures by the same amount, which results in a December 31, 2017 rate base reduction of \$124,964. In addition, Staff recommends that FirstEnergy reflect in its next quarterly filing O&M adjustments totaling \$47,439 and capital expenditure corrections totaling \$16,922, as noted by Staff in this letter. The following table summarizes Staff's total recommended adjustments:

Table 1 - Summary of Staff's Recommended Adjustments

	O&M	Capital
Out of Period Expenses	\$ (1,043.00)	
Software & License Expense	\$ (746.00)	
Misc. Travel Expenses	\$ (1,150.00)	
Short-Term Incentive Program Pay	<u>\$ (44,500.00)</u>	<u>\$ (16,922.00)</u>
Subtotal	\$ (47,439.00)	\$ (16,922.00)
Capital Expenditure Correction	<u>\$ 161,698.00</u>	<u>\$ (161,698.00)</u>
Total	\$ 114,259.00	\$ (178,620.00)