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Ohio | **Public Utilities Commission**

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July 29, 2019

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

RE: In the Matter of *the Review of the Demand Side Management and Energy Efficiency Riders of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company, Case No. 15-1843-EL-RDR*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the application filed by First Energy Service Company for Ohio Edison Company, Cleveland Electric Illuminating Company and Toledo Edison Company, to recover costs associated with its Demand Side Management and Energy Efficiency Riders, in Case No. 15-1843-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

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Cleveland Electric Illuminating Company
Ohio Edison Company
Toledo Edison Company

Case No. 15-1843-EL-RDR

OVERVIEW

On March 31, 2017, in Case No. 15-1843-EL-RDR, Ohio Edison Company (OE), The Cleveland Electric Illuminating Company (CEI), and The Toledo Edison Company (TE) (collectively Companies) filed an application, with associated schedules and workpapers, in support of Staff's annual review of the Companies' Demand Side Management and Efficiency Riders (Rider DSE) and to request recovery of program costs, lost distribution revenue, and performance incentives related to the Companies' 2016 energy efficiency and demand response programs.

STAFF REVIEW

Staff's annual audit of Rider DSE, for the period January 1, 2016, through December 31, 2016, included an examination of schedules and workpapers, confirmation of calculations and a prudency review to determine eligibility for recovery. Staff reviewed the incurred costs, including operation and maintenance expenses, and the Companies' schedules regarding completeness, occurrence, presentation, valuation, allocation, and accuracy. Staff reviewed expense transactions for prudency and appropriateness for recovery, as well as to determine whether these transactions were truly incremental to the amount in base rates. Staff conducted this audit through a combination of document review, interviews, and interrogatories and requested documentation as needed until it was either satisfied that the costs were substantiated or concluded that an adjustment was warranted. In this review, Staff identified expense transactions that should be excluded from recovery in Rider DSE. The following paragraphs generally describe Staff's recommended adjustments:

Out of Period Expenses

Staff discovered that numerous expenses that had occurred in 2013 and 2014 were included for recovery in the Companies' 2016 program costs. Staff contends that it is inappropriate to include prior period program costs, already audited by Staff, in a different period. Therefore, Staff recommends rejecting recovery for transactions totaling $63,379 through Rider DSE as follows: $20,343 from CEI, $26,791 from OE, and $16,245 from TE.

Meals and Refreshments

Staff identified expenses for meals, food, drinks, and kitchen items or services charged to Rider DSE that are typically not recoverable through this rider as they do not benefit Ohio's customers. Staff recommends expenses totaling $516 be disallowed for recovery through the Rider DSE as follows: $211 from CEI, $207 from OE, and $98 from TE.

Embedded Cost of Long-term Debt

For the first five months of 2016, the Companies used their then current embedded cost of long-term debt for interest calculations, which resulted in three separate rates (7.01% for CEI, 7.72% for OE, and 6.39% for TE). However, in the last seven months of 2016, the Companies properly utilized the latest Commission approved cost of debt rate of 6.54%, as previously recommended by Staff.[1] In future filings, Staff recommends that the operating companies continue to use the latest Commission approved cost of debt rate. Staff's recommendation is consistent with the Commission's Finding and Order in Case No. 15-648-EL-RDR where the practice of applying the latest approved cost of long-term debt from the Companies' latest distribution rate case was adopted.[2]

Shared Savings and Lost Distribution Revenue

Staff reviewed the revenue calculations associated with shared savings and lost distribution as part of Rider DSE. On September 24, 2014, the Companies requested to amend their energy efficiency portfolio plan pursuant to Senate Bill 310, which was subsequently approved by Commission Order on November 20, 2014 (Case No. 12-2190-EL-POR). Staff notes that as a result of the amended portfolio plan, the Companies did not earn shared savings in 2016, which was reflected in the Companies' workpapers. Staff also reviewed lost distribution revenues collected through Rider DSE and notes that the net benefits included in the calculation have not yet been verified through the Commission's Evaluation, Measurement and Verification (EM&V) review process, and are subject to further review. The 2016 EM&V review is currently being performed pursuant to Case No. 19-0002-EL-UNC. Additionally, Staff notes that while the methodology used to determine lost distribution revenue appears appropriate, the number of years used to determine the lost distribution revenue with each energy efficiency measure seems excessive. Staff recommends that the period over which energy savings of any project are recognized for lost distribution calculations be limited to a maximum of three years as previously recommended by Staff in Case No. 13-2173-EL-RDR.

CONCLUSION

Staff has completed its audit of Rider DSE and has the following recommendations:

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[1] *See, e.g., In the Matter of the Application of First Energy Service Company for Ohio Edison Company, Cleveland Electric Illuminating Company and Toledo Edison Company, for recovery of program costs, lost distribution revenue and performance incentives related to its Energy Efficiency and Demand Response Programs,* Staff Review and Recommendations, Case No. 13-2173-EL-RDR (March 28, 2018); *and See, e.g., In the Matter of the Application of First Energy Service Company for Ohio Edison Company, Cleveland Electric Illuminating Company and Toledo Edison Company, for recovery of program costs, lost distribution revenue and performance incentives related to its Energy Efficiency and Demand Response Programs,* Staff Review and Recommendations, Case No. 14-1947-EL-RDR (June 28, 2018).

[2] *In the Matter of the Review of the Non-Market-Based Services Rider Contained in the Tariffs of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company,* Case No. 15-648-EL-RDR, Finding and Order (July 1, 2015).

- Staff recommends that the Companies' request for recovery be approved and that a total adjustment of 63,895, plus applicable carrying charges, be removed from the revenue requirement in the Companies' next Rider DSE filing.

- Staff recommends that FE continue to use the latest Commission approved cost of debt for each of the operating companies (currently 6.54%), in calculating the carrying charges.

- Staff recommends to limit to three years, the period in which energy savings are recognized for lost distribution calculations for any project.