BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Delivery Capital Recover Rider Contained in the Tariffs of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company	)))))))	**Case No. 11-5428-EL-RDR**

REPLY COMMENTS OF OHIO EDISON COMPANY, THE CLEVELAND ELECTRIC ILLUMINATING COMPANY AND THE TOLEDO EDISON COMPANY

On April 13, 2012, Blue Ridge Consulting Services, Inc. ("Blue Ridge"), the independent auditor selected to perform the audit of the Delivery Capital Recovery ("DCR") Rider of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, "Companies"), filed its Compliance Audit Report ("Report") with the Public Utilities Commission of Ohio ("Commission").

On June 1, 2012, the Companies and Commission Staff filed Joint Comments to memorialize the parties' agreement that the Commission should adopt the listed recommendations Blue Ridge made in its Report. On that same day, the Office of the Ohio Consumers' Counsel ("OCC") filed comments as well, for the most part, agreeing with the Companies and Commission staff that the Commission should adopt the recommendations Blue Ridge made in its report. However, the OCC did make two additional comments regarding the Companies' treatment of certain components of the accumulated deferred income tax ("ADIT") balances and property tax in Rider DCR. The Companies hereby respond to those comments

Specifically, in its comments, OCC stated:

> The majority of accumulated deferred income tax ("ADIT") is related to book-to tax depreciation differences related to utility plant-in-service. However, Blue Ridge noted ADIT instances that were non-plant in service-related. The Blue Ridge Report made the following recommendation: **"**Blue Ridge recommends that the Commission clarify whether the inclusion of these non plant-in-service ADIT meet the criteria for inclusion within Rider DCR. In addition, each ADIT account should be reviewed to determine whether it is an Ohio jurisdiction item." The burden of proof should be placed on FirstEnergy to demonstrate why it is just and reasonable for the non-plant-in service ADIT to be included in the calculation of Rider DCR. (OCC Comments at pp. 4-5.)

OCC did not include in its comments the next paragraph of the auditor's report, which is very important to the understanding of this provision in the report, and reads:

> Staff concurs with First Energy's assertion that treatment of ADIT in the Rider DCR was intended to be the same as the methodology approved in the last distribution rate case. Therefore, Blue Ridge has removed its recommendation for an adjustment to Rider DCR for ADIT. (Report at p.16.)

Therefore, what may otherwise be mistakenly understood to be a recommendation of the auditor, is not in fact a recommendation at all.

By way of background, in the Companies' last distribution rate case, ADIT associated with the Companies' non-plant in service, as well as plant-in-service balances, were included in the determination of rate base, consistent with common ratemaking practice and approved by the Commission as part of that proceeding. The ADIT balances approved by the PUCO in the last distribution case are included on page 1 of the Companies' November 1, 2011 Rider DCR filing. The non plant-in-service ADIT balances are also included in the determination of the Rider DCR revenue requirements to be consistent with the methodology utilized and approved in the last distribution case.

Because the Companies' treated ADIT for DCR purposes in the same manner as its last distribution rate case, Staff agreed with the Companies' methodology. As stated above, after being so advised, Blue Ridge indicated in its Report that "Staff concurs with First Energy's assertion that treatment of ADIT in the Rider DCR was intended to be the same as the methodology approved in the last distribution rate case. Therefore, Blue Ridge has *removed its recommendation for an adjustment to Rider DCR for ADIT*." (Emphasis added.) (Report at p. 16.) Because Staff concurred with the Companies and Blue Ridge removed the recommendation for an adjustment to Rider DCR for ADIT, the Commission should disregard OCC's comment related to ADIT. The Companies have met any required burden of proof on this issue by following the terms of the Stipulation in Case No. 10-388-EL-SSO and utilitzing the same methodology approved in the last distribution base rate case.

Additionally, the Companies would like to clarify another comment OCC made. OCC referred to a recommendation from page 58 of the Blue Ridge report: "Since property tax is an actual expense that can be validated against third party filings, Blue Ridge recommends a reconciliation and adjustment to actual be done for each Rider DCR annual filing." Currently, all of the rates and ratios used in the Rider DCR calculation of property tax already reflect the most recently filed tax return of the Companies. In other words, the Companies already use all of the rates and ratios from the *actual* tax return, and apply them to the Rider DCR jurisdictional balances, therefore property tax in the DCR filing already reflects actual expenses.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that the foregoing Reply Comments were served this 2nd day of July, 2012 by electronic mail on the persons listed below.

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