

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Review of the 2016 :  
Delivery Capital Recovery Rider :  
Contained in the Tariffs of Ohio Edison : Case No. 16-2041-EL-RDR  
Company, The Cleveland Electric :  
Illuminating Company, and The Toledo :  
Edison Company. :

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

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On August 25, 2010, the Commission issued an Opinion and Order in Case No. 10-388-EL-SSO<sup>1</sup> (ESP II Case) that approved a modified stipulation authorizing Ohio Edison Company, The Cleveland Electric Illuminating Company, and the Toledo Edison Company (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 and March 31, 2016 the Commission issued Opinions and Orders in Case No. 12-

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<sup>1</sup> *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 (Aug.25, 2010) (Opinion and Order) (“ESP II Case”).*

1230-EL-SSO<sup>2</sup> (ESP III Case) and 14-1297-EL-SSO (ESP IV Case)<sup>3</sup> approving a modified stipulation extending the stipulation approved in the ESP II Case.

By Entry issued December 7, 2016, the Commission selected Blue Ridge Consulting Services, Inc. (Blue Ridge) to conduct the 2016 annual audit and investigation of FirstEnergy's Rider DCR. On May 1, 2017, 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 July 7, 2017, and August 7, 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.

Recommendations 1, 2, 3, 4, 5, 8, 9, 12, 13, 14, and 16 are a series of quantitative adjustments that should be adopted and the DCR revenue requirement adjusted to reflect their cumulative impact. In Recommendations 6, 7, 10, 11, and 15 the Staff has additional recommendations and comments beyond the Blue Ridge recommendations. Staff's recommendations are as follows:

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<sup>2</sup> *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 (Jul. 18, 2012) (Opinion and Order) ("ESP III Case").

<sup>3</sup> *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. 14-1297-EL-SSO (Mar. 31, 2016) (Opinion and Order) ("ESP IV Case").

## **I. Blue Ridge's Quantitative Recommendations**

### **Recommendation 1**

Blue Ridge recommends that FirstEnergy include a reconciliation in the rider DCR revenue requirement in a future filing that incorporates the effect on revenues had the correct Rider EDR(g) balances been incorporated in prior Rider DCR filings, beginning with actual September 30, 2012, and ending with actual August 31, 2016, gross plant and reserve balances. Staff agrees with this recommendation.

### **Recommendation 2**

Blue Ridge recommends the amount of the AMI work orders included in the 2016 Rider DCR be included in the reconciliation calculation in a future Rider DCR filing. Staff agrees with this recommendation.

### **Recommendation 3**

Blue Ridge recommends a reconciliation be included in the Rider DCR revenue requirement in a future filing that incorporates the effect on revenues had the correct, updated ATSI balances been incorporated beginning with the actual February 29, 2016, plant balances. Staff agrees with this recommendation.

### **Recommendation 4**

Because of the lack of detail associated with a single line adjustment of approximately \$669,638 related to the retirements of unspecified assets that took place in November 2016, Blue Ridge recommends FirstEnergy determine the impact of the

retirements on the depreciation reserve, and specifically on the accrual of depreciation, relative to The Cleveland Electric Illuminating Company work order HE123, and adjust the subsequent DCR filing accordingly. Staff agrees with this recommendation.

#### **Recommendation 5**

Because Blue Ridge was unable to determine whether certain assets retired were related to replacement projects and whether those retirements were recorded timely, Blue Ridge recommends FirstEnergy determine the impact of the retirements on the depreciation reserve, and specifically the over accrual of depreciation, relative to the Toledo Edison Company work order JC607, and adjust the subsequent DCR filing accordingly. Staff agrees with this recommendation.

#### **Recommendation 8**

Blue Ridge recommends FirstEnergy include a reconciliation in the Rider DCR revenue requirement in a future filing that incorporates the effect on revenues had the overstatement of AFUDC on Service Company work order SC-000002-1 not occurred. Staff agrees with this recommendation.

#### **Recommendation 9**

Blue Ridge recommends FirstEnergy include a reconciliation in the Rider DCR revenue requirement in a future filing that incorporates the effect on revenues had the overstatement of AFUDC on Ohio Edison Company work order OE-700402 not occurred. Staff agrees with this recommendation.

### **Recommendation 12**

Blue Ridge recommends any insurance recovery reduce plant in service and be recognized in a future Rider DCR. Staff agrees with this recommendation.

### **Recommendation 13**

Blue Ridge recommends to include a reconciliation in the Rider DCR revenue requirement in a future filing that incorporates the effect on revenues had depreciation expense not been calculated on the FAS109 land assets since the July 1, 2016 Rider DCR filing. Staff agrees with this recommendation.

### **Recommendation 14**

Blue Ridge recommends a reconciliation be included in a future filing of the Rider DCR that will incorporate the effect on revenues had the correct the Ohio Edison Company personal property tax rate been used in the September 30, 2016, and December 30, 2016, Rider DCR Compliance filings. Staff agrees with this recommendation.

### **Recommendation 16**

Blue Ridge recommends that FirstEnergy include a reconciliation in the Rider DCR revenue requirement in a future filing that incorporates the effect on revenues had the correct effective income tax rate been used in the Toledo Edison Company calculation. Staff agrees with this recommendation.

## **II. Staff's Additional Recommendations and Comments**

### **Recommendation 6**

This recommendation is focused on FirstEnergy improving its infrastructure planning process. Blue Ridge recommends that FirstEnergy consider how they review the conditions of infrastructure during the budget cycle to ensure that those type of projects are adequately budgeted and incorporated into the capital budget. This recommendation was generated by a large number of emergent projects occurring within FirstEnergy.

### **Recommendation 7**

This recommendation is similar to Recommendation 6, and is a repeat of an issue identified in the 2015 Rider DCR Compliance Audit. Recommendation 7 again recommends that FirstEnergy review their planning process to improve the methodology for fully scoping non-IT projects prior to their execution. This recommendation is driven by the significant number of projects that are over budget by greater than 15 percent. Staff recommends that the Commission direct FirstEnergy to undertake both reviews and proactively report on their findings. Staff further recommends that the Commission direct the Auditor to conduct an evaluation of the success of FirstEnergy's efforts to curtail both of these issues and make specific corrective recommendations and/or adjustments in the next audit.

### **Recommendation 10**

This recommendation addresses the general issue of FirstEnergy experiencing a significant number of projects being placed into service greater than 90 days after the

planned in-service date. Blue Ridge recommends that FirstEnergy place renewed emphasis on achieving their internal goal of placing projects into service no later than 90 days after their planned in service date when they have direct control over their completion. Staff recommends that the Commission adopt this recommendation and direct the 2017 DCR Annual Compliance auditor to review FirstEnergy's progress toward reducing the level of delayed in-service attainment to one which is not statistically significant.

### **Recommendation 11**

This recommendation addresses the general issue of FirstEnergy experiencing a significant number of backlogged work orders. Blue Ridge notes that FirstEnergy is again experiencing a significant number of backlog work orders.<sup>4</sup> Staff notes that in response to previous years' recommendations FirstEnergy had significantly reduced the number of backlog work orders; therefore, Staff does not categorically view this to be a sustained issue with FirstEnergy. Staff recommends, as it did in previous years, that FirstEnergy maintain the level of backlog work orders to the levels FirstEnergy achieved in 2013, the interim year FirstEnergy had significantly reduced the 2012 level of backlog work orders and before they experienced an increase again in 2014. In 2015, FirstEnergy had maintained a reduced number of backlogged work orders only to have them increase again in 2016.

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<sup>4</sup>

This issue was highlighted in the Rider DCR Annual Compliance Audits in Case Nos. 12-1855-EL-RDR and 14-1929-EL-RDR.

## **Recommendation 15**

Staff recommends that the Commission direct FirstEnergy to review the Toledo Edison Company real property tax rate and verify the rate's decline. FirstEnergy's review, including supporting documentation, should be provided to Staff no later than December 31, 2017.

Respectfully submitted,

**Michael DeWine**  
Ohio Attorney General

**William L. Wright**  
Section Chief

*/s/ Steven L. Beeler*

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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 7<sup>th</sup> day of July, 2017.

*/s/ Steven L. Beeler*

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Summary: Comments Initial Comments submitted by Assistant Attorney General John Jones on behalf of the Staff of the Public Utilities Commission of Ohio. electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio