

**BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO**

<b>In the Matter of the Delivery Capital</b>	<b>:</b>	
<b>Recovery Rider Contained in the</b>	<b>:</b>	
<b>Tariffs of Ohio Edison Company, The</b>	<b>:</b>	<b>Case No. 17-2009-EL-RDR</b>
<b>Cleveland Electric Illuminating</b>	<b>:</b>	
<b>Company and The Toledo Edison</b>	<b>:</b>	
<b>Company</b>	<b>:</b>	

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

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**INTRODUCTION**

Pursuant to the Attorney Examiner’s Entry of April 20, 2019, Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (“Companies”) hereby submit comments on the Compliance Audit of the Companies’ Delivery Capital Recovery Riders (“Rider DCR”) for the year 2017 (“2017 Audit Report”) submitted on May 11, 2018 by Blue Ridge Consulting Services, Inc. (“Blue Ridge”). While the Companies agree to the majority of the 2017 Audit Report’s recommendations as specified below, the Companies disagree with Blue Ridge’s recommendation to exclude from Rider DCR the costs for the initial trimming of vegetation which was outside a corridor or “off-corridor.” Capitalization of these expenses is consistent with the Companies’ longstanding accounting policy. Blue Ridge relies on a system of accounting that is not binding on the Commission and which the Commission has exercised its discretion to modify countless times. Accordingly, the Companies recommend the Commission reject this vegetation management recommendation

## COMMENTS

### **A. Blue Ridge's Vegetation Management Recommendation Disregards Circumstances Where Capitalization is Appropriate**

Blue Ridge concluded that certain vegetation management costs the Companies had capitalized should instead be recorded as a maintenance expense. These are costs for the initial trimming of vegetation, where the vegetation was outside a corridor or “off-corridor.” As a result, Blue Ridge Recommendation No. 10 recommends revisions to the Companies’ accounting policy and exclusion of three vegetation management work orders from Rider DCR:

Rec-10. Blue Ridge believes that the Companies’ policy Accounting for the Clearing of Transmission and Distribution Corridors, section 1.3, is in conflict with the FERC Uniform System of Accounts definition for FERC 365 and FERC 593 regarding what vegetation management costs should be capitalized and what costs should be recorded as a maintenance expense. First, the wording of the Companies’ policy gives it broad leeway to remove any tree or limb outside a corridor for any reason and assign it as capital cost; thus, Blue Ridge recommends that the Companies’ policy statement be better defined. Second, Blue Ridge recommends that the Companies revise its vegetation management policy in this area to be consistent with FERC definitions. Third, and as a result, Blue Ridge recommends that the three vegetation management work orders discovered in Blue Ridge’s work order sample be excluded from the Rider DCR. (2017 Audit Report, pp. 61–63)<sup>1</sup>

The Companies respectfully disagree with Blue Ridge’s conclusions and recommendations.

The Companies’ implementation of accounting policy 1.3 details initial clearing activity that qualifies for capitalization:

1. The removal of tree(s) located off corridor, defined as outside of the distribution clearing zone corridor delineated from the center of the pole line extending out to 15 feet or removal of an on-corridor tree that has overhanging limbs greater than 15 feet above the highest conductor attached to the pole;
2. initial removal of overhanging limbs greater than 15 feet above the

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<sup>1</sup> 2017 Audit Report. p. 23.

highest conductor attached to the pole;

3. cutting tree(s) in the clear, located outside of the distribution clearing zone corridor, where the tree is removed only to the point that it will never threaten electric facilities, requiring no future maintenance (typically stump let 15 – 20 feet tall); and
4. notification of property owners that the activities described in 1, 2 and 3 will occur.

Each of these activities represents an initial expansion of the cleared zone. Contrary to Blue Ridge's assertion that the Companies' accounting policy gives the Companies "broad leeway to remove any tree or limb outside a corridor for any reason and assign it as capital cost,"<sup>2</sup> the Companies' accounting policy sets forth detailed criteria to qualify for capitalization.

The Companies' accounting policy is appropriate. It was developed in collaboration with external auditors, a fact Blue Ridge acknowledged.<sup>3</sup> In the Companies' experience, performing this capitalized work eliminates or mitigates the need to go back and perform additional work later, and removes the threat of large trees falling into and damaging the circuit conductors that would otherwise shorten the useful life of the conductors. As a result, these prudent investments extend the in-service life of the conductors and serve future generations of customers. This capitalized work has also been shown to provide reliability benefits to customers. The accounting policy fully conforms to GAAP accounting guidance. Further, the Companies first implemented this policy in 2004, many years prior to the establishment of Rider DCR. The Commission should remain consistent with its prior decision to evaluate incremental plant investment based on the accounting treatment reflected in the last distribution rate case.<sup>4</sup>

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<sup>2</sup> *Id.* p. 15.

<sup>3</sup> *Id.* p. 62.

<sup>4</sup> *In the Matter of the Review of the Delivery Capital Recovery Rider in the Tariffs of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company*, Case No. 11-5428-EL-RDR, Finding and Order, para. 25, August 22, 2102 ("However, the Commission notes that Staff concurred with the Companies that the treatment of ADIT in Rider DCR was intended to be the same methodology approved in the last distribution rate

Blue Ridge's reliance on definitions in the FERC Uniform System of Accounts ("USoA") is misplaced because the Commission has full discretion and authority to interpret the FERC USoA definitions as it sees fit. Under R.C. 4905.13 the Commission is empowered to implement whatever system of accounting it deems appropriate. As has been noted many times, "[t]he Commission may modify the Uniform System of Accounts prescribed by FERC as it applies to utilities operating within the state of Ohio."<sup>5</sup> Indeed, there have been hundreds of proceedings of the case type "AAM" (Application to change accounting methods) over the years. Put simply, FERC's USoA is binding on this Commission to the extent the Commission chooses. There is no reason for the Commission to require a different accounting treatment than the Companies have used since before the last base rate case against which incremental capital investment is being measured for purposes of Rider DCR.

For all the foregoing reasons, the Companies respectfully request that Blue Ridge's Recommendation No. 10 be rejected.

**B. Blue Ridge's Remaining Findings and Recommendations are Acceptable or Addressed in Other Proceedings**

The 2017 Audit Report accurately describes both the RFP prescribing the scope of audit services to be performed in this proceeding as well as the controlling provisions established in the Commission's approval of Rider DCR in ESP II and continued as part of ESP III and ESP IV.<sup>6</sup> The 2017 Audit Report further accurately documents Blue Ridge's analysis of the data provided by the Companies and identifies and explains its conclusions and recommendations. With the

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case and that Blue Ridge removed its recommendation.") (emphasis added).

<sup>5</sup> See, e.g., *In the matter of the application of The Columbus Southern Power Company for an accounting order to defer demand-side management program expenditures and net lost revenues: High Efficiency Heat Pumps-Retrofit, et. al.*, Case No. 94-1812-EL-AAM (Opinion and Order Apr. 13, 1995) paragraph 10.

<sup>6</sup> Case No. 10-388-EL-SSO (ESP II) and extended in Case No. 12-1230-EL-SSO (ESP III) and Case No. 14-1297-EL-SSO (ESP IV).

exceptions of Recommendation 10 that the Companies modify their tree trimming capitalization policy 1.3 and that related plant be excluded from Rider DCR, and Recommendation 17 on excess accumulated deferred income taxes, which is addressed in the Companies' stipulation in the Tax Cut and Jobs Act proceeding, Case No. 18-1604-EL-UNC, the Companies agree with the remaining conclusions and recommendations in the 2017 Audit Report. In its 2018 Audit Report filed on April 30, 2019, Blue Ridge described its evaluation of the Companies' responses with respect to each of the recommendations from the 2017 Audit Report and concluded that "no additional work is necessary" for Recommendations Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 13, 14, 15,<sup>7</sup> 16.

### CONCLUSION

The Companies recommend the Commission issue an Order adopting all of the recommendations contained in the 2017 Audit Report as described herein, except for Recommendations No. 10 and No. 17 as described above, and finding that Blue Ridge satisfactorily performed the scope of audit services outlined in the RFP, consistent with the Commission's Orders in ESP II, ESP III, and ESP IV.

Respectfully submitted,

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<sup>7</sup> Recommendation No. 15 recommended the Companies continue to make progress to reduce the unitization backlog. Blue Ridge noted that the Companies had reduced the unitization backlog but recommended that efforts continue.

ILLUMINATING COMPANY, AND THE  
TOLEDO EDISON COMPANY

## **CERTIFICATE OF SERVICE**

On May 10, 2019, the foregoing document was filed on the Public Utilities Commission of Ohio's Docketing Information System. Service was made to the parties listed below via electronic mail.

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**This foregoing document was electronically filed with the Public Utilities**

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**5/10/2019 5:19:46 PM**

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**Case No(s). 17-2009-EL-RDR**

Summary: Comments Comments of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company electronically filed by Mr Robert M Endris on behalf of Ohio Edison Company and The Cleveland Electric Illuminating Company and The Toledo Edison Company