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Ohio | **Public Utilities Commission**

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January 8, 2020

2020 JAN -8 PM 4:29

PUCO

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

RE: *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Approval of a Decoupling Mechanism, Case No. 19-2080-EL-ATA and Case No. 19-2081-EL-AAM*

Dear Docketing Division:

Enclosed please find the Staff Recommendation in the Matter of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Approval of a Decoupling Mechanism, Case No. 19-2080-EL-ATA and Case No. 19-2081-EL-AAM.

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

First Energy Corp.
Conservation Support Rider (Rider CSR)
Case No. 19-2080-EL-ATA
Case No. 19-2081-EL-AAM

SUMMARY

On November 21, 2019, Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company (collectively, the Companies) filed an application (Application) in Case No. 19-2080-EL-ATA to request approval of a decoupling mechanism pursuant to Ohio Revised Code (R.C.) Section 4928.471, which was enacted as a part of Am. Sub. H.B. 6 (HB 6) and authorized an electric distribution utility to file an application to implement a decoupling mechanism. Decoupling is a mechanism designed to separate a utility's revenue from changes in energy sales. The purpose of decoupling is to reduce a utility's disincentive to promote energy efficiency.

In the Application, the Companies propose the Conservation Support Rider (CSR) as a decoupling mechanism designed to reconcile the Companies annual residential (rate RS), and commercial customer (rate GS), base distribution revenue and the revenue resulting from the implementation of R.C. 4928.66, excluding program costs and shared savings. On a yearly basis, the annual revenue will be compared against the 2018 baseline revenue and will be calculated for each company individually, with separate calculations for residential and commercial customers. CSR will be adjusted annually to reconcile any over recovery or under recovery from the prior year.

STAFF REVIEW

In its review, Staff examined the as-filed schedules for consistency with HB 6 to ensure proper accounting and regulatory 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.

Resulting from its review, Staff notes certain concerns for the Commission's consideration as there is the potential for large under recoveries in future filings and the need for eliminating lost distribution revenue (LDR) once new base rates are established.

Staff's first concern is that 2018 baseline revenues have not been weather normalized. Typically, companies normalize sales and revenues for weather when establishing base distribution rates and baselines used in decoupling riders in order to remove the volatility in sales associated with weather. Staff's review of cooling degree days (CDD) in the Companies' territory found summer weather in 2018 to be significantly warmer than normal. To put the anomalous weather in perspective, in terms of CDDs, the Akron and Toledo areas experienced the warmest summers on record, while the Cleveland area experienced the second warmest summer on record.[1] Table 1

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[1] National Weather Service Forecast Office, *National Oceanic and Atmospheric Administration Online Weather Data,* https://w2.weather.gov/climate/xmacis.php?wfo=cle, (Accessed January 2, 2020). Note: Akron data goes back to 1887, Cleveland data goes back to 1871, and Toledo data goes back to 1873.

below compares 2018 heating degree days (HDD) and CDDs to the 30 year normals[2] in Akron, Cleveland, and Toledo. Staff avers that without weather normalization of 2018 sales, the abnormally warm summer experienced in the Companies' service territories during 2018 creates a baseline revenue that does not reflect sales in a year with typical or average weather. As a result, Staff's concern is that unless future years are as warm as the summer of 2018, the Companies' future filings could result in large under collections of the 2018 baseline revenue. Therefore, Staff recommends that 2018 baseline revenue be weather normalized.

Table 1: 2018 Weather Compared to 30 Year Normals (1981 - 2010)[3]

Cleveland Area			
HDD - Normal	HDD - 2018	Difference	% Difference
5,762	5,684	-78	-1.35%
CDD - Normal	CDD - 2018	Difference	% Difference
817	1,284	467	57.16%

Toledo Area			
HDD - Normal	HDD - 2018	Difference	% Difference
6,145	6,020	-125	-2.03%
CDD - Normal	CDD - 2018	Difference	% Difference
793	1,232	439	55.36%

Akron Area			
HDD - Normal	HDD - 2018	Difference	% Difference
6,150	5,784	-366	-5.95%
CDD - Normal	CDD - 2018	Difference	% Difference
652	1,289	637	97.70%

Staff's second concern is that the Companies' Application does not contemplate revenue per customer in determining 2018 baseline revenue. In order to be consistent with previously approved

[2] 30 Year Normals represent the averages of climatological averages for the most recent three decades (1981-2010) provided by the National Oceanic and Atmospheric Administration's National Centers for Environmental Information

[3] National Weather Service Forecast Office, https://w2.weather.gov/climate/xmacis.php?wfo=cle, (Accessed January 2, 2020). Note: CDD & HDD use base 65, HDD based on calendar year 2018.

decoupling riders,[4] Staff recommends the Companies' calculate 2018 baseline revenue in terms of revenue per customer.

Staff's final concern is the treatment of LDR once the utility has filed a new base rate case. HB 6 does not prescribe the treatment of LDR after a base rate case. Staff recommends that the Commission order the Companies to cease collecting LDR once they have filed and approved new distribution rates. Upon approval of the new rates, the Companies will have established a new baseline revenue requirement and there will no longer be a need to recover LDR. Any deviations from this newly established baseline will be naturally captured within the yearly decoupling of the baseline revenues.

CONCLUSION

Staff recommends to the Commission that the CSR be approved subject to Staff's recommendations regarding the 2018 baseline revenue, and that the Companies cease collection of the LDR once new base rates are established.

[4] See *In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of a Distribution Decoupling Rider*, Case No. 11-5905-EL-RDR; *In the Matter of the Application of Ohio Power Company to Update Its Pilot Throughput Balancing Adjustment Rider*, Case No. 19-571-EL-RDR; *In the Matter of the Application of The Dayton Power and Light Company to Update its Distribution Decoupling Rider*, Case No. 18-1605-EL-RDR.