BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the 2018 Review of the Delivery Capital Recovery Rider of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company	:	Case No. 18-1542-EL-RDR

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

INTRODUCTION

Pursuant to the Attorney Examiner's Entry of September 29, 2020, Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company ("Companies") hereby submit reply comments on the Compliance Audit of the Companies' Delivery Capital Recovery Rider ("Rider DCR") for the year 2018 ("2018 Audit Report") submitted on April 30, 2019 by Blue Ridge Consulting Services, Inc. ("Blue Ridge").

As noted in their initial comments, the Companies agree with or have already implemented the majority of the 2018 Audit Report's recommendations that were directed at them. However, the Companies disagree with Blue Ridge's recommendations 1 and 3, to exclude from Rider DCR the costs for the initial trimming of vegetation which was outside a corridor or "off-corridor," and to revise their accounting policy. Capitalization of these expenses is consistent with the Companies' longstanding accounting policy and is fully within the Commission's discretion to approve.

Commission Staff and The Office of the Ohio Consumers' Counsel ("OCC") also filed initial comments. In their comments, Staff adopted the comments it filed for Case No. 19-1887-

EL-RDR as its comments for this case.[1] The portion of those comments relevant to this case indicates that Staff agrees with Blue Ridge's recommendation to exclude certain vegetation management costs from Rider DCR.[2] OCC's comments also agree with Blue Ridge, and further recommend that the Commission: (1) require that all electric utilities comply with FERC accounting standards; (2) require that Staff periodically audit the Companies' vegetation management activities at the operating company level; and (3) order the Companies to file a report identifying all tree trimming costs that were "improperly categorized and capitalized" under Rider DCR since at least 2017.[3]

The Companies disagree with Blue Ridge's recommendations to exclude from Rider DCR the costs for the initial trimming of vegetation which was outside a corridor or "off-corridor", and to revise their accounting policy. Accordingly, the Companies recommend that the Commission reject Blue Ridge's vegetation management capitalization recommendations and disregard the comments of Staff and OCC in support of those recommendations. The Companies further recommend that the Commission disregard OCC's unnecessary recommendations about a report on "improperly categorized and capitalized" trimming costs and duplicative operating company-level audits, and reject OCC's out-of-scope and unsupported recommendation that the Commission require all electric utilities to comply with FERC accounting standards.

[1] Staff Comments at 2. It appears that the only portion of Commission Staff's comments from Case No. 19-1887-EL-RDR that is relevant to Case No. 18-1542-EL-RDR is the portion regarding capitalization of vegetation management expenses. Out of an abundance of caution, the Companies incorporate their own initial and reply comments in Case No. 19-1887-EL-RDR and their own initial comments from Case No. 18-1542-EL-RDR herein in their entirety.
[2] *Id.*
[3] OCC Comments at 2-4.

REPLY COMMENTS

A. Blue Ridge's Vegetation Management Recommendations Disregard Circumstances Where Capitalization is Appropriate or are Duplicative of Current Activities

Staff and OCC support Blue Ridge's recommendations regarding the Companies' vegetation management capitalization policy. However, as the Companies have noted, their policy is consistent with GAAP accounting, and is fully within the Commission's discretion to allow. As explained in their initial comments, the Companies' accounting policy fully conforms to GAAP accounting guidance, and the Commission is empowered to implement whatever system of accounting it reasonably deems appropriate. [4] Further, in the Companies' experience, performing this capitalized work extends the in-service lives of the conductors by eliminating or mitigating the need to go back and perform additional work later, and removing the threat of large trees falling into and damaging the circuit conductors that would otherwise shorten the useful life of the conductors.

In addition, OCC recommends that the Commission require that Staff periodically audit the Companies' vegetation management activities at the operating company level. However, the Commission has already authorized annual Rider DCR audits to confirm that the amounts sought for recovery are not unreasonable in light of the facts and circumstances known at the time the expenditures were committed.[5] These audits would include review of capitalized vegetation management costs in Rider DCR rate base. As such, OCC's recommendation for additional audits of vegetation management activities would be duplicative and unnecessary.

For these reasons and as explained in the Companies' comments, Staff and OCC's

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[4] Companies' Comments at 3-4.

[5] *See* Stipulation in Case No. 12-1230-EL-SSO, p. 22.

comments regarding the Companies' vegetation management policy should be rejected.[6]

B. The Companies' Vegetation Management Accounting Treatment is Consistent With Their Last Base Distribution Rate Case.

In its comments, OCC once again makes the baseless claims that tree trimming costs "are the normal O&M expenses that were already embedded in the base rates for each of the FirstEnergy operating companies during the last distribution rate case," and that the Companies' "customers are potentially paying for the same tree-trimming costs in both base rates and Rider DCR."[7] As the Companies have previously explained,[8] this is simply untrue. Again, the Companies' policy to capitalize expenditures associated with the subsequent removal of priority trees or other large tree limbs outside the corridor was implemented in 2004, prior to the Companies' last base distribution rate case. Since these types of costs were being capitalized at the time of the Companies' last base rate case, they were not included as O&M expenses in the Companies' current base distribution rates, as OCC claims. Eliminating these costs from the Rider DCR rate base would preclude any recovery of costs for these important activities. Instead of eliminating alleged "double-recovery," OCC's recommendation would result in no recovery. Importantly, the Companies negotiated and agreed to stipulations in their prior electric security plans, which included the commitment to freeze base distribution rates in conjunction with Rider DCR audits and annual revenue caps, with the understanding that their capitalization policy for these costs would continue to remain in effect consistent with the last base rate case. Acceptance of OCC's recommendation without allowing the Companies the opportunity for timely recovery or deferral of these costs would contradict the balance of these provisions that were approved by the

[6] Blue Ridge's other recommendations related to vegetation management in the 2018 Audit Report (Recommendations 2 and 4) were not directed at the Companies. See Companies' Comments, p. 5.
[7] OCC Comments at 6.
[8] *See* Companies' Reply Comments, Case No. 17-2009-EL-RDR at 4 (June 10, 2019).

Commission.

Further, as the Companies have noted, the Commission has found that the Rider DCR rate base should remain consistent with the establishment of rate base during the Companies' last base rate case. [9] Indeed, OCC also has argued that Rider DCR treatment should follow that of the last base rate case. [10] As noted above, these vegetation management initial clearing activities were, in fact, subject to the same accounting treatment at the time of the last rate case as they are today. Therefore, it is appropriate to continue to include these capitalized costs in Rider DCR rate base.

The Commission should remain consistent with the last rate case and not eliminate cost recovery of this important program that benefits current and future customers for years to come. OCC's comments should be rejected by the Commission.

C. OCC's Other Recommendations are Unnecessary, Outside the Scope of this Proceeding, or Lacking a Legal Basis.

In addition to supporting certain Blue Ridge recommendations regarding vegetation management capitalization, OCC also requests that the Commission "require [the Companies] to file a report that includes the total amount of vegetation management costs (by audit year from 2017 onward) that was improperly charged to consumers."[11] Again, capitalization of these expenses is consistent with the Companies' longstanding accounting policy and is fully within the Commission's discretion to approve. OCC's recommendation regarding a report is unnecessary and should be disregarded.

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[9] *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, 2012 ("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 case and that Blue Ridge removed its recommendation.")

[10] *See* Comments of OCC in Case No. 15-1739-EL-RDR, filed June 23, 2017, p. 6-7; and in Case No. 16-2041-ELRDR,
filed July 7, 2017, p. 9.

[11] OCC Comments at 10.

OCC also argues that the Commission "should also require all electric utilities to comply with FERC accounting standards adopted by the PUCO when charging customers through a rider like DCR."[12] OCC's requested relief is beyond the scope of this proceeding and should be rejected. The Companies again note that the Commission is empowered to implement whatever system of accounting it reasonably deems appropriate.

CONCLUSION

The Companies recommend the Commission issue an Order adopting all of the recommendations contained in the 2018 Audit Report directed at the Companies as described herein, except for Recommendations Nos. 1 and 3 as described above and in the Companies' initial comments, and finding that Blue Ridge satisfactorily performed the scope of audit services outlined in the RFP, consistent with the Commission's Orders in ESP IV.

Respectfully submitted,

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[12] OCC Comments at 3-4.

CERTIFICATE OF SERVICE

On November 16, 2020, the foregoing document was filed on the Public Utilities Commission of Ohio's Docketing Information System. The PUCO's e-filing system will electronically serve notice of the filing of this document on all parties of record in this proceeding.

/s/Emily V. Danford
One of the Attorneys for Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company