BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In The Matter Of The 2014 Review Of The Demand Side Management And Energy Efficiency Rider Of Ohio Edison Company, The Cleveland Electric Illuminating Company, And The Toledo Edison Company.	:	Case No. 13-2173-EL-RDR
In The Matter Of The 2015 Review Of The Demand Side Management And Energy Efficiency Rider Of Ohio Edison Company, The Cleveland Electric Illuminating Company, And The Toledo Edison Company.	:	Case No. 14-1947-EL-RDR
In The Matter Of The 2016 Review Of The Demand Side Management And Energy Efficiency Rider Of Ohio Edison Company, The Cleveland Electric Illuminating Company, And The Toledo Edison Company.	:	Case No. 15-1843-EL-RDR
In The Matter Of The 2017 Review Of The Demand Side Management And Energy Efficiency Rider Of Ohio Edison Company, The Cleveland Electric Illuminating Company, And The Toledo Edison Company.	:	Case No. 16-2167-EL-RDR
In The Matter Of The 2018 Review Of The Demand Side Management And Energy Efficiency Rider Of Ohio Edison Company, The Cleveland Electric Illuminating Company, And The Toledo Edison Company	:	Case No. 17-2277-EL-RDR

PREPARED TESTIMONY
OF
KIMBERLY CHILDS

GRID MODERNIZATION & RETAIL MARKETS DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO

STAFF EXHIBIT ___

December 1, 2020

1. Q. Please state your name and business address.

A. My name is Kimberly Childs. My business address is 180 East Broad Street, Columbus, OH 43215-3793.

2. Q. By whom are you employed and in what capacity?

A. I am employed by the Public Utilities Commission of Ohio (PUCO or Commission). I work in a lead position as a Utility Specialist III in the Grid Modernization & Retail Markets Division. My duties include conducting investigations of energy efficiency (EE) riders, rate case applications, and other financial audits of public utility companies subject to the jurisdiction of the PUCO. During my employment at the PUCO, I have worked on numerous EE riders, rate cases, gas cost recovery cases, and other audit cases.

3. Q. Would you please describe your educational and professional background?

A. My educational background includes a Bachelor of Science degree in Accounting from Franklin University, a Master of Business Administration degree from Ashland University, a master's level certificate in Human Resource Management from Capella University, and completion of various regulatory training programs.

I have been employed with the PUCO since 1990, during which I have held various positions, to include Utility Rate Analyst I, Utility Rate Analyst II, Utility Auditor II, Utility Auditor Coordinator, Utility Specialist I, Utility Specialist II, and my current position as a Utility Specialist III. In my previous positions, I have worked in Gas Cost Recovery and Analysis, Accounts & Audits, Planning and Market Analysis, and Policy Research Division of the Rates and Analysis. I currently work in the Grid Modernization & Retail Markets Division.

4. Q. What is the purpose of your testimony?

The purpose of my testimony is to respond to Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company's (collectively, FirstEnergy Ohio or "the Companies") objections to the Staff's Review and Recommendation for years 2014 through 2018 (the "Review Years") on the following topics:

- the exclusion of financially related employee incentive plan expenses from Case No. 17-2277-EL-RDR;
- the exclusion of program costs in 2014 that were incurred in a previous calendar year, which Staff rendered "out of period expenses" in Case No. 13-2173-EL-RDR;
- the exclusion of program costs in 2015 and 2016 that were incurred in previous calendar years, which Staff rendered "out-of-period expenses" from Case Nos. 14-1947-EL-RDR and 15-1843-EL-RDR; and

- the exclusion of meal, refreshment and miscellaneous expenses in Case Nos. 13-2173-EL-RDR; 14-1947-EL-RDR, 15-1843-EL-RDR, and 16-2167-EL-RDR;

Pursuant to the July 18, 2012 Opinion and Order in Case No. 12-1230-EL-SSO, and continued in Case 14-1297-EL-SSO, the Stipulation provides that the DSE riders be subject to ongoing Staff review and audit. Therefore, I will also explain Staff's goal and purpose for auditing riders and the true-up process.

5. Q. lease explain the recovery and true-up process for the DSE rider and how Staff handles the review and recognition of appropriate expenses in the audit vs. the estimated expenses.

A. With regards to the DSE rider, estimated costs for implementing the DSE programs are included for recovery on a projected basis. Since the costs for the DSE program are initially estimated for recovery, the accuracy and true nature of the costs are not apparent. Once the actual expenses are known, the projected expenses are trued-up to reflect the actuals. The Companies file this information with the commission in its rider proceedings, for Staff's review and audit. Staff is then able to properly investigate the true nature and basis of the actual expenses and/or revenues for accuracy, prudency, and overall appropriateness.

6. Q. What is the overall goal and purpose(s) for Staff's review and audit of riders such as the DSE rider?

A. The overall goal and purpose of auditing riders is to ensure that the actual expenses and/or revenues being recovered are accurate, proper, prudent, just, reasonable, incremental, beneficial to Ohio ratepayers, and/or are related to distribution service. Staff's annual audit of Rider DSE includes an examination of schedules and work papers, confirmation of calculations, and a prudency review to determine eligibility for recovery. Staff reviews the incurred costs, including operation and maintenance expenses, and the Companies' schedules for completeness, occurrence, presentation, valuation, allocation, and accuracy. Furthermore, Staff reviews expense transactions for prudency and appropriateness for recovery and determines whether these transactions are truly incremental to the amount in base rates. Staff conducts these audits through a combination of document review, interviews, interrogatories, and requested documentation as needed. If during an investigation, Staff discovers that there are items that do not meet these standards, Staff will correct, adjust, and/or remove the item from recovery.

7. Q. Does Staff stand by all the adjustments made in accordance with each filed Staff letter in the following cases: 13-2173-EL-RDR, 14-1947-EL-RDR, 15-1843-EL-RDR, 16-2167-EL-RDR, and 17-2277-EL-RDR?

A. Yes. Staff continues to stand by the adjustments made as described in the Staff letters for each of the cases listed above and for additional reasons as stated herein.

8. Q. How and why did Staff remove the financially motivated incentives from Case 17-2277-EL-RDR?

A. Through data requests, Staff found that the employee's wages were separate calculations from the employee pay incentives. Thus, Staff was able to audit the employee pay incentives separately from the labor rates and was able to pinpoint financially motivated incentives that benefit stockholders. Therefore, Staff removed the financial based incentives from the employee pay incentives rider for recovery. Staff intends to standby and support the adjustment to remove all employee pay incentives from recovery.

9. Q. What information did Staff use to evaluate and remove the expenses related to the employee pay incentives from rider DSE in Case No. 17-2277-EL-RDR?

A. Staff requested the written guidelines and documentation that support and/or outline the earning and or payment of employee pay incentives. One of the documents submitted in the data request response was the 2018 Key Performance Indicator (KPI) Digest. Located on page 9 in this document, Staff found specific language that states "FE STIP will be paid only if the annual regulated distribution (RD)/regulated transmission (RT) and Corporate/Other Operating Earnings KPI result achieves threshold, including costs to cover FE STIP payout." This statement indicates that the entire employee incentive payments are first and foremost relies on the financial performance of First Energy Corporation. These financial performance measures are tied to the Companies' bottom line and benefit the stockholders.

10. Q. What has Staff's past positions in other cases been regarding financially motivated employee pay incentives?

A. Consistent with past practices, Staff does not support a company recovering financial incentives[1] because it passes a company's financial goals on to its ratepayers. The Commission has agreed with Staff's position to remove these costs from recovery.[2]

11. Q. Was there anything else that Staff noted about the employee pay incentives that made the incentives ineligible for recovery?

---

[1] Financial incentives include, but may not be limited to: performance awards, restricted stock units, executive incentives, earnings per share, shareholder returns, stock purchases, company earnings, and/or any other financially motivated incentives tied to the Company's bottom line and/or meeting shareholder interests.

[2] *In the Matter of the Application of Duke Energy Ohio, Inc. for Recovery of Program Costs, Lost Distribution Revenue, and Performance Incentives Related to Its Energy Efficiency and Demand Response Programs for 2014*, Case No. 15-534-EL-RDR, Opinion and Order (October 26, 2016); *In the Matter of the Application of Duke Energy Ohio, Inc. for Recovery of Program Costs, Lost Distribution Revenue, and Performance Incentives Related to Its Energy Efficiency and Demand Response Programs*, Case No. 16-664-EL-RDR, et al., Finding and Order at 6 (May 15, 2019).

A. Yes. During the audit, Staff also discovered that portions of the safety and operational goals further related to the Companies' financial performance/bottom line, generation activities, and/or other non-distribution related activities, which were considered inappropriate for recovery.

12. Q. Why did Staff remove "out of period costs" from recovery in Case Nos. 13-2173-EL-RDR, 14-1947-EL-RDR, and 15-1843-EL-RDR?

A. The Companies had an opportunity to collect and present applicable expenses in the year applicable to the rider audit. Therefore, Staff does not believe that it is fair and/or appropriate for the Companies to "look back" to previous periods that have already been audited and completed by Staff (indicated by a Staff letter filed with the Commission), in order to collect expenses that it failed to recognize and/or include. This practice goes both ways, for example in Case No. 17-2277-EL-RDR, Staff found that the employee pay incentives were related to financially motivated goals that support the stockholders. However, Staff did not "look back" to previously audited periods in order to remove financially motivated employee pay incentives from the filed DSE Rider Nos. 13-2173-EL-RDR, 14-1947-EL-RDR, 15-1843-EL-RDR, and 16-2167-EL-RDR. However, if Staff adopts the Companies' practice, which purports to include and/or exclude amounts from previously filed cases, further adjustments would be warranted to reduce the DSE rider in the amount related to financially based incentives from previous cases.

13. Q. In Erin Demiray's testimony on page 4, the Companies seem to relate the $12,331 amount of "out-of-period costs" excluded in Case No. 14-1947-EL-RDR, to the net impact of accrual and reversals. Please explain the nature of the cost(s) and why it was excluded from recovery.

A. Staff's report in Case No. 14-1947-EL-RDR identifies and excludes $12,331 in "out of period" expenses from recovery. In witness Erin Demiray's testimony on page 4, the Companies seems to tie this amount to the net impact of the accrual reversals and expenses from 2015. However, this amount, is not related to that. Staff has permitted accruals and reversal entries to account for expenses and/or revenues, to be recognized in the period of which they were incurred. However, pursuant to the Staff's letter filed with the Commission for this case, these expenses were removed because they were related to the prior year of 2014, which was prior to the 2015 audit period in this case.

14. Q. Specific to Case No. 15-1843-EL-RDR, why did Staff exclude "out of period costs" in this case?

A. In Case No. 15-1843-EL-RDR, the "out of period" expenses that were excluded were from invoices that were incurred and charged in earlier years that related 2013 and 2014. Because these expenses were not charged to the DSE rider at that time, it was possibly recovered through another mechanism such as a different rider and/or base rates. However, years later and after the fact, the Companies attempt to re-allocate these expenses through miscellaneous journal entries to get recovery through riders such as the DSE. This is another reason that Staff does not believe it to be fair and/or appropriate for the Companies to "look back" to previously audited periods to collect expenses that it failed to recognize and/or include in the applicable year of the rider true-up.

15. Q. Why did Staff exclude the recovery of meals, refreshments, and miscellaneous expenses in DSE Rider Case Nos. 13-2173-EL-RDR, 14-1947-EL-RDR, 15-1843-EL-RDR, and 17-2277-EL-RDR?

A. In Case No. 13-2173-EL-RDR, Staff reviewed and identified numerous expenses for meals, food, drinks, kitchen items/services, parking fees, and other employee expenses from various vendors that were charged to the rider. In this case, the Companies did not provide the necessary information requested for Staff to continue its investigation and audit of these items to determine whether they were appropriate for recovery. In Case Nos. 14-1947-EL-RDR, 15-1843-EL-RDR, and 17-2277-EL-RDR Staff identified expenses for meals, food, drinks, memberships, and kitchen items/services, and/or that were charged to the Rider DSE. These items were not beneficial to ratepayers, were not incremental to base rates and/or were inappropriate for recovery in Rider DSE. Furthermore, Staff believes that Ohio ratepayers should not bear the costs for providing a meal to a vendor or an internal employee that is not on travel status. The Companies give employee(s) on "out of town" travel status a per-diem meal rate. Therefore, a company provided meal is viewed as an extra expense that is not necessary, would not benefit ratepayers, and is not needed to implement the DSE program, thus making this expense inappropriate for recovery.

16. Q. Does this conclude your testimony?

A. Yes. However, I reserve the right to submit supplemental testimony, as new information subsequently becomes available or in response to positions taken by other parties.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing **Prepared Testimony of Kimberly Childs, Grid Modernization & Retail Markets Division, Public Utilities Commission of Ohio** was served by electronic mail upon the following parties of record, this 1st day of December, 2020.

/s/ Robert A. Eubanks
Robert A. Eubanks
Assistant Attorney General

PARTIES OF RECORD:

Robert M. Endris
FirstEnergy Service Company
76 South Main Street
Akron, Ohio 44308
330.384.5728 (telephone)
330.384.3875 (facsimile)
rendris@firstenergycorp.com

James F. Lang
(Counsel of Record)
Calfee, Halter & Griswold LLP
The Calfee Building
1405 East Sixth Street
Cleveland, OH 44114
216.622.8200 (telephone)
216.241.0816 (facsimile)
jlang@calfee.com

Counsel for Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company

Angela Paul Whitfield
Carpenter Lipps & Leland LLP
280 North High Street, Suite 1300
Columbus, Ohio 43215
614.365.4100 (telephone)
paul@carpenterlipps.com

Counsel for The Kroger Company

Christopher Healey
(Counsel of Record)
Ambrosia E. Logsdon
Assistant Consumers' Counsel
Office of the Ohio Consumers' Counsel
65 East State Street, 7th Floor
Columbus, Ohio 43215
Telephone: [Healey] 614.466.9571
Telephone: [Logsdon] 614.466.1292
christopher.healey@occ.ohio.gov
ambrosia.logsdon@occ.ohio.gov

Counsel for the Office of the Ohio Consumers' Counsel

Michael L. Kurtz
Kurt J. Boehm
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202
mkurtz@bkllawfirm.com
kboehm@bkllawfirm.com
jkylercohn@bkllawfirm.com

Counsel for the Ohio Energy Group

Robert Dove
Kegler Brown Hill + Ritter Co., L.P.A.
65 E State St., Ste. 1800
Columbus, OH 43215-4295
rdove@keglerbrown.com

Counsel for Ohio Partners for Affordable Energy