

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio	)	
Edison Company, The Cleveland Electric	)	
Illuminating Company, and The Toledo	)	Case No. 19-1903-EL-RDR
Edison Company for Review of Rider	)	
AMI	)	

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

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**I. INTRODUCTION**

On March 24, 2022, Staff filed its Review and Recommendations<sup>1</sup> regarding its 2020 audit of Ohio Edison Company’s, The Cleveland Electric Illuminating Company’s, and The Toledo Edison Company’s (“Companies”) Advanced Metering Infrastructure / Modern Grid Rider (“Rider AMI”). Staff recommended “the removal of all new pilot<sup>2</sup> costs made during the test year, totaling \$2,387,260.”<sup>3</sup> Staff recommended in the alternative that, if the Commission disagrees with full removal of CEI Pilot costs, then it should at least disallow \$975.66 for the costs of a replacement pole and \$53,981 for incentive costs related to financial performance and transmission and generation.<sup>4</sup> Finally, Staff recommended that the Companies should remove \$945,083 for Grid Mod I incentive costs related to financial performance and transmission and generation.<sup>5</sup>

It is unclear whether Staff is recommending removal of the CEI Pilot costs from Rider AMI because Staff believes the costs should not be recovered, or because Staff believes the costs should not be recovered specifically through Rider AMI. The Companies maintain that, other than the

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<sup>1</sup> Case No. 19-1903-EL-RDR (3/24/2022) Staff’s Review and Recommendations (“2020 Staff Report”).

<sup>2</sup> “Pilot” refers to the Companies’ Ohio Site Deployment of the Smart Grid Modernization Initiative, a/k/a the “CEI Pilot.”

<sup>3</sup> 2020 Staff Report at 2 (for purposes of numbering the pages of the 2020 Staff Report, the Companies have not included the cover letter).

<sup>4</sup> *Id.*

<sup>5</sup> *Id.*

cost of the replacement pole and the incentive compensation related solely to the achievement of financial goals, the CEI Pilot costs should be recoverable through Rider AMI for the reasons explained below.

The Companies continue to agree that incentive compensation related solely to the achievement of financial goals should not be recovered through Rider AMI. The Companies have already made adjustments to remove these amounts for Grid Mod I for this audit period,<sup>6</sup> and will make adjustments in a future Rider AMI filing for the amounts associated with the CEI Pilot. However, Staff's recommended adjustments for both the CEI Pilot and Grid Mod I are higher than the adjustments the Companies identified, and the Companies are unable to determine how Staff arrived at their numbers.

## **II. COMMENTS**

### **A. The costs associated with the CEI Pilot are properly recoverable through Rider AMI.**

Staff makes two alternative recommendations for CEI Pilot costs. Staff's first alternative recommendation is the "removal" of all new CEI Pilot costs made during the audit year totaling \$2,387,260.<sup>7</sup> It is unclear what Staff means by "removal;" *i.e.*, whether Staff is recommending removal of these costs from Rider AMI because Staff believes the costs should not be recovered, or because Staff believes the costs should not be recovered specifically through Rider AMI. If Staff is recommending removal from Rider AMI, with the potential for recovery elsewhere, then if the Commission accepts this Staff recommendation, the Companies request authorization to create a regulatory asset for these costs consistent with the terms authorized in Case Nos. 09-1820-

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<sup>6</sup> See the Rider AMI quarterly filing workpapers for rates effective April 1, 2022, July 1, 2022, and October 1, 2022 in Case No. 21-1130-EL-RDR (2/28/2023), Report in Support of Staff's 2022 Annual Review of Rider AMI at Exhibit C (page 20), Exhibit D (page 23), and Exhibit E (page 21), respectively.

<sup>7</sup> 2020 Staff Report at 2.

EL-ATA and 10-388-EL-SSO, including costs of O&M, depreciation, property tax expense, and carrying charges at the weighted average cost of capital, for consideration in their upcoming base distribution rate case.

Regardless of what Staff means by “removal,” the Companies maintain that recovery of the CEI Pilot costs is appropriate and that recovery through Rider AMI is proper. The 2020 Staff Report acknowledges that the Companies received Commission approval to recover costs associated with the completion of Volt Var Optimization (“VVO”) and Distribution Automation (“DA”) studies in the CEI Pilot for the period June 1, 2015 through June 1, 2019.<sup>8</sup> But Staff concludes that this authority to complete the studies does not allow for the recovery of new O&M, plant, and capital replacements.<sup>9</sup>

The Commission should allow recovery of these costs in Rider AMI because they are associated with the continued operation of the CEI Pilot itself (*i.e.*, the ongoing functionality of the technologies that were deployed). While recovery for the studies ended on June 1, 2019, the CEI Pilot and its grid-modernizing technologies remain and continue to operate for the benefit of customers. Further, the Companies are required to maintain the CEI Pilot consistent with the Commission’s directive that they continue offering their time-varying rate product until otherwise ordered and that they file annual interim reports regarding data obtained from the VVO and DA technologies.<sup>10</sup> The CEI Pilot costs that Staff proposes to remove were incurred to continue the operation of the CEI Pilot, including necessary maintenance, repair, and replacement of the technology investments.

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<sup>8</sup> Case Nos. 09-1820-EL-ATA, *et al.* (5/28/2015) Finding and Order at ¶¶ 7-8.

<sup>9</sup> 2020 Staff Report at 2.

<sup>10</sup> Case Nos. 09-1820-EL-ATA, *et al.* (5/28/2015) Finding and Order at ¶ 8.

Further, the costs are recoverable in Rider AMI. The Commission has recognized since the Companies' ESP II that these costs are incremental and should be recovered through Rider AMI.<sup>11</sup> Rider AMI itself expressly authorizes recovery of CEI Pilot costs. In the Companies' ESP IV case,<sup>12</sup> the Commission approved Rider AMI tariff language authorizing the recovery of "costs associated with the Ohio Site Deployment of the Smart Grid Modernization Initiative [*i.e.*, the CEI Pilot] in Case No. 09-1820-EL-ATA" including "any additional costs associated with expansion of the Ohio Site Deployment. . . ."<sup>13</sup> This tariff language was approved by the Commission on May 25, 2016 and went into effect on June 1, 2016<sup>14</sup> -- *after* the Commission's May 28, 2015 Finding and Order approving the cost recovery for the completion of the VVO and DA studies.<sup>15</sup> Rider AMI, as effective on June 1, 2016, authorized recovery of all costs associated with the CEI Pilot, subject to audit and reconciliation as specified in the Rider AMI tariff.

The referenced costs are directly associated with the CEI Pilot and would not otherwise have been incurred. Thus, the costs to keep the CEI Pilot up and running are properly recovered under Rider AMI. Accordingly, the Commission should not accept Staff's first alternative recommendation. If the Commission nevertheless determines that the costs of the CEI Pilot should not be recovered under Rider AMI, the Companies request authorization to create a regulatory asset for these costs, as described above.

Staff's second alternative recommendation, should the Commission disagree with the removal of all CEI Pilot costs, is to "disallow" certain items. Specifically, Staff recommends the disallowance of \$975.66 for the cost of a replacement pole and \$53,981 for incentive costs related

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<sup>11</sup> Case No. 10-388-EL-SSO (8/25/2010) Opinion and Order at 13, ¶18(b) ("All costs associated with the [Ohio Site Deployment of the smart grid initiative] will be considered incremental for recovery under Rider AMI.").

<sup>12</sup> Case No. 14-1297-EL-SSO.

<sup>13</sup> *Id.* (5/25/2016) Finding and Order at 3, approving the Companies' Rider AMI compliance tariffs filed on 5/13/2016, effective 6/1/2016.

<sup>14</sup> *Id.*

<sup>15</sup> Case Nos. 09-1820-EL-ATA, *et al.* (5/28/2015) Finding and Order.

to financial performance and transmission and generation.<sup>16</sup> The Companies agree with Staff's second alternative recommendation regarding the replacement pole and regarding incentive compensation related to the achievement of financial goals, as explained below.

**B. The Companies agree that the incentive compensation related to the achievement of financial goals should be removed from Rider AMI, but the amounts recommended by Staff are too high.**

As in their 2019 Rider AMI audit,<sup>17</sup> the Companies continue to agree that a portion of incentive compensation in the CEI Pilot – and now also in Grid Mod I – consisting of incentive compensation related solely to the achievement of financial goals should be excluded from Rider AMI for this audit period.<sup>18</sup> The Companies made an adjustment in their Rider AMI quarterly filings<sup>19</sup> to exclude \$402,711 of financial-based incentive compensation costs associated with Grid Mod I that were included in the rider in 2020. The Companies will make a similar adjustment in an upcoming Rider AMI filing for \$23,002 of 2020 financial-based incentive compensation costs associated with the CEI Pilot. Staff's recommended exclusions for the CEI Pilot and Grid Mod I exceed the amounts the Companies identified,<sup>20</sup> but the Companies are not able to determine why Staff arrived at different amounts. The Companies dispute the exclusion of incentive compensation that is not tied to the achievement of financial goals. The operational safety-based and reliability-based incentive compensation included in Rider AMI in 2020 are part of employee

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<sup>16</sup> 2020 Staff Report at 2.

<sup>17</sup> Case No. 18-1647-EL-RDR (9/22/2021) Reply Comments of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company at 5-6.

<sup>18</sup> See, e.g., *In re Ohio Power Company*, Case Nos. 17-0038-EL-RDR, 18-0230-EL-RDR (June 17, 2020) Opinion and Order at ¶ 47; *In re Duke Energy Ohio, Inc.*, Case No. 18-397-EL-RDR (July 31, 2019) Finding and Order at ¶ 17.

<sup>19</sup> See the Rider AMI quarterly filing workpapers for rates effective April 1, 2022, July 1, 2022, and October 1, 2022 in Case No. 21-1130-EL-RDR (2/28/2023), Report in Support of Staff's 2022 Annual Review of Rider AMI at Exhibit C (page 20), Exhibit D (page 23), and Exhibit E (page 21), respectively.

<sup>20</sup> 2020 Staff Report at 2.

compensation to directly support the CEI Pilot and Grid Mod I and should not be excluded from recovery.

### III. CONCLUSION

For the foregoing reasons, the Companies respectfully request that the Commission:

- A. Adopt Staff's recommendation to disallow \$975.66 from Rider AMI for the cost of a replacement pole;
- B. Find that the Companies have properly removed from Rider AMI \$402,711 of 2020 incentive compensation costs for Grid Mod I and that the Companies should remove \$23,002 of 2020 incentive compensation costs for the CEI Pilot; and
- C. Decline to adopt the remainder of the reductions in Staff's Review and Recommendations, or, alternatively, if the Commission determines that the costs of the CEI Pilot should not be recovered under Rider AMI, authorize the Companies to create a regulatory asset for these costs consistent with the terms authorized in Case Nos. 09-1820-EL-ATA and 10-388-EL-SSO, including costs of O&M, depreciation, property tax expense, and carrying charges at the weighted average cost of capital, for consideration in their upcoming base distribution rate case.

Respectfully submitted,

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### **CERTIFICATE OF SERVICE**

The undersigned certifies that the foregoing was filed electronically through the Docketing Information System of the Public Utilities Commission of Ohio on this 3rd day of May, 2023. The Public Utilities Commission of Ohio's e-filing system will electronically serve notice of the filing of this document on counsel for all parties.

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Summary: Comments electronically filed by Ms. Christine E. Watchorn on behalf of Ohio Edison Company and The Cleveland Electric Illuminating Company and The Toledo Edison Company.