FILE

/31

BOEHM, KURTZ & LOWRY

ATTORNEYS AT LAW
36 EAST SEVENTH STREET
SUITE 1510
CINCINNATI, OHIO 45202
TELEPHONE (513) 421-2255

TELECOPIER (513) 421-2764

Via Overnight Mail

January 9, 2008

Public Utilities Commission Of Ohio
PUCO Docketing
180 E. Broad Street, 10th Floor
Columbus, Ohio 43215

In Re: Case Nos. 07-551-EL-AIR, 07-552-EL-ATA, 07-553-EL-AAM AND 07-554-EL-UNC

Dear Sir/Madam:

Please find enclosed an original and twenty (20) copies of the DIRECT TESTIMONY AND EXHIBITS OF RICHARD A. BAUDINO, LANE KOLLEN AND STEPHEN J. BARON FILED ON BEHALF OF THE OHIO ENERGY GROUP filed in the above-referenced matter.

Copies have been served on all parties on the attached certificate of service. Please place this document of file.

Respectfully Yours,

David F. Boehm, Esq.
Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.
BOEHM, KURTZ & LOWRY

Mlkkew
Encl.

CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served by regular mail, unless otherwise noted, this 9th day of January, 2008 to the following::

Kolich, Kathy Attorney At Law
FirstEnergy Corp
76 South Main Street
Akron Oh 44308

Feld, Stephen L
FirstEnergy Service Company
76 South Main Street
Akron Oh 44308

Korkosz, Arthur
First Energy, Senior Attorney
76 South Main Street
Legal Dept., 18th Floor
Akron Oh 44308-1890

Kovacik, Leslie A Ms.
City Of Toledo
420 Madison Avenue Suite 100
Toledo Oh 43614-1219

Miller, Ebony L. Attorney-At-Law
FirstEnergy Corp.
76 South Main St.
Akron Oh 44308

Hayden, Mark A Mr.
FirstEnergy Corp.
76 South Main
Akron Oh 44308

Whitt, Mark A
Jones Day
P.O. Box 165017 325 John H McConnell Blvd, Suite 600
Columbus Oh 43216-5017

Burk, James Attorney-At-Law
FirstEnergy Service Company
76 South Main Street
Akron Oh 44308

Industrial Energy Users-Ohio
Samuel C. Randazzo, General Counsel
McNees Wallace & Nurick LLC
21 East State Street 17th Floor
Columbus Oh 43215

McAlister, Lisa G Attorney
McNees, Wallace And Nurick
21 East State Street, 17th Floor
Columbus Oh 43215-4228

Ohio Partners For Affordable Energy
Mooney Colleen L
1431 Mulford Rd
Columbus Oh 43212

Rinebolt, David
Law Director
231 West Lima Street P.O. Box 1793
Findlay Oh 45839-1793

Office Of The Consumers Counsel
10 West Broad Street, Suite 1800
Columbus Oh 43215-3485
Phone: 614-466-8574

David F. Boehm, Esq.
Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.

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. 07-551-EL-AIR**
Edison Company for Authority to	)	**Case No. 07-552-EL-ATA**
Increase Rates for Distribution Service,	)	**Case No. 07-553-EL-AAM**
Modify Certain Accounting Practices	)	**Case No. 07-554-EL-UNC**
and for Tariff Approvals	)	

DIRECT TESTIMONY

AND EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF THE

OHIO ENERGY GROUP, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

JANUARY 2008

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

TABLE OF CONTENTS

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 Edison Company for Authority to Increase Rates for Distribution Service, Modify Certain Accounting Practices and for Tariff Approvals	)))))))	**Case No. 07-551-EL-AIR** **Case No. 07-552-EL-ATA** **Case No. 07-553-EL-AAM** **Case No. 07-554-EL-UNC**

DIRECT TESTIMONY OF LANE KOLLEN

I. QUALIFICATIONS AND SUMMARY

Q. Please state your name, position, employer and business address.

A. My name is Lane Kollen. I am a Vice President and Principal with the firm of J. Kennedy and Associates, Inc. ("Kennedy and Associates"). My business address is 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. Please describe your education and professional certifications.

A. I earned a Bachelor of Business Administration in Accounting degree and a Master of Business Administration degree, both from the University of Toledo. I also earned a

Master of Arts degree from Luther Rice University. I am a Certified Public Accountant, with a practice license, and a Certified Management Accountant.

Q. Please describe your professional experience.

A. I have been an active participant in the utility industry for more than thirty years. For more than twenty years, I have been a consultant employed by Kennedy and Associates specializing in the utility industry. In that capacity, I have provided consulting services to state and local government agencies and consumers of utility services in the planning, ratemaking, financial, accounting, tax, and management areas. From 1983 to 1986, I was a consultant employed by Energy Management Associates. In that capacity, I provided consulting services to investor and consumer owned utility companies in the planning, financial, and ratemaking areas. From 1976 to 1983, I was employed by The Toledo Edison Company in a series of positions providing services in the accounting, tax, financial, and planning areas.

I have appeared as an expert witness on planning, ratemaking, accounting, financial, accounting, tax and management issues before regulatory commissions and courts at the federal and state levels on nearly two hundred occasions. I have testified before the Public Utilities Commission of Ohio ("PUCO" or "Commission") on numerous occasions, including Docket Nos. 88-170-EL-AIR, 88-171-EL-AIR, 91-410-EL-AIR, 92-1715-AU-COI, 93-01-EL-EFC, 92-1464-EL-AIR, 95-299-EL-AIR, 95-300-EL-AIR, 99-1658-EL-ETP, and 04-169-EL-UNC. In addition, I have developed and presented papers at various industry conferences on ratemaking, accounting, and tax issues. My qualifications and regulatory appearances are further detailed in my Exhibit___(LK-1).

Q. On whose behalf are you providing testimony?

A. I am providing testimony on behalf of the Ohio Energy Group, Inc., a group of large customers taking electric service from Ohio Edison Company ("Ohio Edison"), The Cleveland Electric Illuminating Company ("Cleveland Electric"), and The Toledo Edison Company ("Toledo Edison") (collectively, the "Companies").

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address and make recommendations regarding certain revenue requirement issues that either were not addressed or were not addressed properly in the Reports issued on December 4, 2007 by the Commission Staff ("Staff") in this proceeding for each of the Companies. I have used the Staff Reports as the starting point for my recommendations and quantifications.

Q. Please summarize your testimony.

A. I recommend a rate reduction of $13.513 million for Ohio Edison and rate increases of no more than $17.380 million for Cleveland Electric and $24.386 million for Toledo Edison. The following table summarizes the OEG issues and the effect on the revenue requirement for each of the three Companies using the Staff Reports as the starting point. The table also quantifies the OEG rate change recommendations compared to the Staff Report recommendations.

Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company
Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
Summary OEG Revenue Requirement Recommendations
(000's)

	OE		CEI		TE	
	Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
Rate Base Issues						
Reflect Annuitization of RCP Dist O&M Deferrals - Net	(1,705)	(1,705)	(1,057)	(1,057)	(556)	(556)
Remove Energy for Education from CWC Calculation	2,434	2,600	1,435	1,533	477	509
Reflect Energy for Education Liability	(7,466)	(7,976)	(4,473)	(4,778)	(2,034)	(2,173)
Adjust Working Capital Balance to Actual - Not Zero	(5,482)	(5,856)	(3,813)	(4,073)	(2,258)	(2,412)
Reflect Ohio State DIT Balance Written Off in June 2005	(2,990)	(3,194)	(725)	(774)	(1,816)	(1,940)
Reflect Adjust to ADIT Incl in Other Rate Base Items	(7,164)	(7,674)	(8,244)	(8,807)	(4,698)	(5,019)
Operating Income Issues						
Adjust Pension Expense to SFAS 87 Expense Amount	(13,869)	(13,869)	(5,440)	(5,440)	(3,089)	(3,089)
Adjust OPEB Expense to SFAS 106 Expense Amount	(7,882)	(7,882)	(585)	(585)	1,163	1,163
Remove Long-Term Incentive Compensation Expense	(5,125)	(5,125)	(4,658)	(4,658)	(2,240)	(2,240)
Reflect Amortization of Income Tax Benefits from State DIT	(15,110)	(15,110)	(3,666)	(3,666)	(9,195)	(9,195)
Rate of Return Issues						
Impute Capital Structure of 60% Debt and 40% Com Eq	(3,810)	(4,294)	(3,245)	(3,657)	(1,198)	(1,350)
Reflect Return on Equity of 9.70%	(2,263)	(9,051)	(1,923)	(7,693)	(709)	(2,836)
Total OEG Adjustments to Staff's Recommendation	(70,452)	(79,136)	(36,394)	(43,657)	(26,152)	(29,136)
Staff Recommended Increases	56,939	65,624	53,774	61,037	50,538	53,522
OEG Recommended Changes in Base Rates	$ (13,513)	$ (13,513)	$ 17,380	$ 17,380	$ 24,386	$ 24,386

The remainder of my testimony is organized into three sections following the sequence of the issues on the preceding table: Rate Base Issues, Operating Income Issues and Rate of Return Issues. If an issue affects both rate base and operating income, I address it only in the Rate Base Issues section.

II. RATE BASE ISSUES

RCP Distribution O&M Deferrals

Q. Please describe the Staff treatment of the RCP Distribution O&M Deferrals.

A. The Staff Reports include in rate base the date certain balances of the deferral amounts, net of the offsetting accumulated deferred income tax ("ADIT") amounts. The Reports also include in operating income the related amortization expense computed using a 25 year amortization period. In addition, the Staff Reports use a debt-only rate of return on the net rate base amounts. The amounts included by the Staff in the revenue requirement for each Company are detailed on my Exhibit___(LK-2).

Q. Should the Commission utilize the Staff methodology and quantification?

A. No. The Staff methodology results in an excessive quantification of the revenue requirement that ensures the Companies will overrecover the deferral amounts. This occurs for a simple reason. The Staff methodology assumes that there is no decline in the date certain balances. Yet, the reality is that the rate base date certain balances in fact decline as the Companies recover their amortization expense. The Staff methodology is analogous to a home-owner paying on a mortgage, but never receiving the benefit of reduced interest due to the declining principal balance. Such a result is unreasonable and should be rejected.

Q. **Is there an alternative that provides the Companies full recovery of the deferral amounts, but does penalize ratepayers?**

A. Yes. The alternative is to use the rate base date certain balance and quantify an annuitized payment over the same 25 years and the same debt interest rate used by the Staff. In this manner, the Companies receive a rate of return on the date certain balances as the balances are reduced through recoveries of the principal amounts from ratepayers. This annuitization methodology is fair and equitable both to the Companies and to their ratepayers.

Q. **Have you quantified the effect of your recommendation?**

A. Yes. The net effect is reflected on the table in the Summary section of my testimony. It consists of the removal of the deferral amount, net of ADIT, from the Staff rate base, removal of the amortization expense from the Staff operating income, and increasing operating expense for the amortization expense using the annuity methodology. The computations are detailed on my Exhibit___(LK-2). The grossed-up rate of returns are based on the Staff Reports and are detailed in Section I on my Exhibit___(LK-3).

Energy for Education Regulatory Liability

Q. Please describe how the Staff treated the Energy for Education regulatory liability.

A. Instead of subtracting the date certain balance of the Energy for Education regulatory liability from rate base, the Staff treated this as an advance payment of revenues through the Cash Working Capital ("CWC") quantification. This was the same treatment used by the Companies in their filings.

Q. Does the Staff methodology properly quantify the effect of this regulatory liability in the revenue requirement?

A. No. This approach improperly increased rate base by $47.867 million ($23.148 million reduction in CWC instead of $71.015 million at date certain) for Ohio Edison, $28.819 million ($13.620 million reduction in CWC instead of $42.439 million at date certain) for Cleveland Electric and $14.750 million ($4.516 million reduction in CWC instead of $19.266 million at date certain) for Toledo Edison. The Staff failed to use the date certain balances for the Companies and instead diluted the rate base effect through the revenue lag periods used in the CWC computations. In addition, and as I subsequently discuss, the Staff improperly set the Working Capital at $0, thus completely negating even the reduced effect of this regulatory liability reflected in the Staff CWC computations.

Q. Why is there a difference between the use of the date certain balances and reflecting these amounts as a reduction in the revenue lag used in the CWC computation?

A. The results are not equivalent because the revenue lag day effects were computed based on the average days between the dates the Companies received the Energy for Education payments and the dates on which those payments will have been fully utilized. The simple mathematics of these CWC computations results in lower balances than the actual date certain balances.

Q. Should the Commission use the date certain balances?

A. Yes. There is nothing exceptional about the Energy for Education regulatory liability that requires it be treated through the CWC computation. The Energy for Education regulatory liability should be treated the same as other rate base components, such as prepayments and inventories, which are set either at the date certain amount or an average over the test year.

Further, the treatment of this regulatory liability through CWC is conceptually flawed because the cash prepayment of these amounts is not a recurring cash receipt pattern that should be reflected in the revenue lag, unlike other recurring cash payments that the Companies make. These customer cash receipts were a one-time occurrence and, as such, the unamortized balances should be subtracted from rate base, not diminished by washing the amounts through the CWC computation as if they were recurring cash receipts. Finally, moving the Energy for Education regulatory liability to Other Rate Base ensures that there indeed is a reduction to rate base in the event that the Commission determines that Working Capital cannot be negative and sets it at $0.

Q. **Please describe how you quantified the effect of the Energy for Education regulatory liability.**

A. I quantified the effect in two steps, with the effect of each step shown on the table in the Summary section of my testimony. The first step was to remove the Energy for Education from the computation of the revenue lag used by the Staff to compute Cash

Working Capital. This first step had the effect of increasing rate base and the revenue requirement, assuming that the negative Working Capital and negative Cash Working Capital are not negated by setting the Working Capital amounts to zero. Otherwise, there should be no effect of the first step.[1] The quantification effect on CWC for this first step is detailed on my Exhibit___(LK-4). The second step was to recognize the Energy for Education regulatory liability date certain amount in Other Rate Base as a subtraction from rate base. I used the grossed-up rate of return from the Staff Reports as detailed in Section I of my Exhibit___(LK-3).

Negative Working Capital

Q. Please describe how the Staff Reports treated the negative Working Capital amounts computed for each of the Companies.

A. The Staff set the Working Capital amounts for each Company at $0, despite the fact that it quantified negative CWC and negative Working Capital amounts for each Company. It should be noted that the Companies' filings also set the Working Capital amounts to $0. However, unlike the Companies, the Staff removed the Customer Deposits amounts

[1] If the Commission sets Working Capital to $0, then there necessarily should be no increase in either Working Capital or the revenue requirement from this first step.

from the Companies' Working Capital computations and reclassified them as Other Rate Base amounts in order to retain the benefit of subtracting those amounts from rate base.

Q. Should the Commission set Working Capital at $0?

A. No. This approach has the effect of negating the proper reductions to the Companies' rate base amounts for these ratepayer-supplied capital amounts. A negative Cash Working Capital simply means that, on average, the ratepayers provide the Companies cash revenues before the Companies make their cash disbursements for expenses. As such, the Companies avoid financing the amount of the negative Cash Working Capital and the related financing costs, the opposite of the result that occurs when the Companies have positive Cash Working Capital requirements and must finance their cash expense disbursements while they wait for their cash revenues. Just as the ratepayers would be obligated to pay the Companies a return on their positive CWC requirements, the Companies should be required to pay the ratepayers a return on their CWC investment.

Q. If there is some perceived conflict with state law on providing the ratepayers a return on their CWC investment, are there other remedies for this inequity?

A. Yes. The Commission could include certain rate base amounts in Working Capital that would offset the negative CWC amounts rather than including those same amounts in Other Rate Base. For example, the Commission could move all or some of the amounts in accounts 182 and 186 from Other Rate base to Working Capital. In addition, if this an issue, it emphasizes the need to remove the Energy for Education regulatory liability from the Cash Working Capital computation and include it in Other Rate Base in order to preserve the carrying cost value for ratepayers.

The important point is that the Commission should look to the substance of the negative Working Capital issue and fashion an equitable remedy rather than be constrained by the form of the Working Capital computation, at least as filed by the Companies and to the extent that form was mostly replicated by the Staff. After all, the Staff recognized this important principle by reclassifying the Customer Deposits, another rate base reduction, from Working Capital, where the Companies had included these amounts in their filings, and used them instead actually to reduce rate base by including the amounts in Other Rate Base. In short, substance should transcend form.

Q. How did you quantify the effect of recognizing the actual negative Working Capital rather than setting it at $0?

A. I simply used the negative Working Capital quantified by the Staff for each of the Companies on Schedule B-5 in the Staff Reports, which I then multiplied times the Staff Report grossed-up rates of return as detailed in Section I of my Exhibit___(LK-3).

<u>Ohio State Excess Accumulated Deferred Income Taxes</u>

Q. Please describe what happened to the Ohio State ADIT when the state corporate income tax was eliminated and replaced with the new CAT tax in 2005 through a five year phase-out/phase-in process.

A. When any corporate income tax rate, whether federal or state, is reduced or eliminated, the related ADIT effectively is "stranded" because these amounts no longer represent future income tax liabilities. These Ohio state ADIT amounts, which were collected from ratepayers to pay for future state income taxes on a levelized or normalized basis, now never will be paid to the Ohio state government. With the 2005 Ohio tax legislation, the Ohio state ADIT amounts, except for the amounts reversing during the phase-out period, effectively were converted from loans to grants.

Q. How have such excess ADIT amounts historically been treated for ratemaking purposes?

A. Historically, most, if not all, state commissions have retained such excess ADIT amounts for the benefit of ratepayers and flowed through both principal and the rate of return on the excess ADIT amounts as a reduction to the revenue requirement. The amounts continued to be subtracted from rate base, as they had been in the past, because these ADIT amounts were ratepayer-supplied funds. In addition, most state commissions then amortized the principal amounts of the excess ADIT over various time periods, the duration of which was discretionary unless otherwise mandated by law. In other words, the excess ADIT amounts were returned to ratepayers; utilities generally were not allowed to retain these amounts. Historically, the best-known example of this was the nearly universal flow-through to ratepayers of the excess ADIT due to the reduction in the federal corporate income tax rate from 40% to 34% resulting from enactment of the Tax Reform Act of 1986.

Q. When the state tax law was changed in 2005, how did the Companies treat their excess state income tax amounts?

A. The Companies treated these excess deferred income taxes as income, except for the limited amounts reversing during the phase-out period. In this manner, the Companies removed these excess amounts from the ADIT balances in accounts 282 and 283 on their accounting books. The Companies provided their accounting entries and the amounts removed from accounts 282 and 283 in June 2005 in response to OEG-1-16, a copy of which is attached as my Exhibit___(LK-5). Ohio Edison included $28.439 million in 2005 income, Cleveland Electric included $6.875 million, and Toledo Edison included $17.203 million, based on the quantifications provided in response to OEG-1-16.

Q. Should these excess ADIT amounts have been retained for the benefit of ratepayers and reflected in the revenue requirements in this proceeding?

A. Yes. The Companies should have reclassified these amounts from ADIT to regulatory liabilities. Taking these amounts to income instead of retaining them for the benefit of ratepayers was inequitable and inappropriate.

Q. How should the excess Ohio state ADIT be reflected in the revenue requirement?

A. The amounts transferred to income should be added to the rate base date certain balances of ADIT for each of the Companies reflected in the Staff Reports, thereby reducing rate base. In addition, these date certain balances should be amortized to expense over three years. It should be noted that the amortization expense must be grossed up for revenue requirement purposes because the amortization expense is a negative income tax expense, not a normal amortization expense where the amortization expense and revenue requirement are equivalent except for the uncollectibles expense gross-up.

The quantifications are detailed on my Exhibit___(LK-6).

Other Rate Base Amounts

Q. Has the Staff included amounts in Other Rate Base that should be excluded?

A. Yes. First, the Staff improperly included numerous ADIT amounts in Other Rate Base that have no related originating temporary difference amount included in rate base. In other words, it generally is appropriate to have the tax effect (ADIT) of a balance sheet amount included in rate base only if the balance sheet amount itself is included in rate base. Second, certain of the ADIT amounts should not be included because the related expense or timing difference is not included in operating expenses recoverable for ratemaking purposes. One such example is the ADIT associated with IRS audit interest. Another example is the ADIT associated with stock option expense (incentive compensation tied to the financial performance of FirstEnergy Corp.). The ADIT amounts by Company that should be excluded from rate base are as follows:

Ohio Edison

190 Other Taxes
190 Post Retirement Benefits
190 Banked and Accrued Vacation
190 Injuries and Damages
190 Severance Estimate
190 Merger Transaction Costs
190 Taxes and Property Taxes Reserve
190 Executive Deferred Compensation
190 Executive Deferred Compensation Interest
190 ESOP – Compensation Expense
190 Extraordinary Gain FIN 47
283 Pension Expense
283 Incentive Compensation
283 IRS Audit Interest

Cleveland Electric

190 Pension and Rightsizing Costs
190 Vacation Accrual
190 Other Taxes
190 Supp Exec Retirement Program – Def Comp
190 Incentive Compensation
190 Severance Estimate
190 Merger Cost Expensed
190 CSC FAS 106 Adj
190 FIN 47
283 Stock Option Expense & Deduction
283 Injuries and Damages
283 Health Benefits – FAS 106

Toledo Edison

190 Contingency Dura Landfill Cleanup
190 Deferred Compensation
190 Expense Accruals – FAS 112
190 Health Benefits – FAS 106 (Postretmt Benefits)

190 Incentive Compensation
190 Pension and Rightsizing Cost
190 Provision for Doubtful Accounts
190 Severance Estimate
190 Vacation Pay Accrual
283 Stock Options Performance Shares

Q. Has the Staff also excluded amounts from Other Rate Base that should be included?

A. Yes. In addition to the Ohio state excess ADIT, the Staff improperly excluded the following amounts from Other Rate Base, as did the Companies in their filings. These ADIT amounts should be included in rate base because the related originating temporary differences are reflected in the capital structure and included in the cost of debt and overall rate of return. The tax effects of the related originating temporary differences normally are reflected in rate base because they affect the utility's costs and they properly offset the affects of the originating temporary differences in the rate of return.

<u>Ohio Edison</u>

190 Gain/Loss on Sale of Securities
283 Reacquired Debt Expense

<u>Cleveland Electric</u>

190 Amortization Premium Discount Debt
283 Reacquired Debt Expense

Toledo Edison

190 Reacquired Debt Expense
283 Amortization Premium Discount Debt

Q. Have you quantified the effect of your Other Rate Base recommendations?

A. Yes. The quantifications are detailed on my Exhibit___(LK-7) and summarized on the table in the Summary section of my testimony.

III. OPERATING INCOME ISSUES

Pension and Other Post-Retirement Benefits Expense

Q. Please describe the pension and other post-retirement benefits expense included by the Staff in the Companies' revenue requirements.

A. The Staff adopted the Companies' proposal to use only the service cost component of the SFAS 87 pension expense and the SFAS 106 post-retirement benefits expense. In other words, the Staff excluded the interest income on the pension and post-retirement benefits trust fund assets and excluded the interest expense on the net present value of the respective obligations (liabilities) from the Companies' per books expense amounts.

Q. What effect does the Companies' proposal have on the amount of pension and post-retirement benefits expense included in their respective revenue requirements compared to using the SFAS 87 and SFAS 106 amounts?

A. The effect is to increase Ohio Edison's pension expense by $13.742 million and its other post-retirement benefits expense by $7.810 million, with the related revenue requirement effect of $13.869 million and $7.882 million, respectively. The effect is to increase

Cleveland Electric's pension expense by $5.399 million and its other post-retirement benefits expense by $0.581 million, with the related revenue requirement effect of $5.440 million and $0.585 million, respectively. The effect is to increase Toledo Edison's pension expense by $3.059 million and to reduce its other post-retirement benefits expense by $1.152 million, with the related revenue requirement effect of $3.089 million and negative $1.163 million, respectively.

Q. **What is the basis for using only the service cost component of the SFAS 87 pension expense and SFAS 106 post-retirement benefits expense for ratemaking purposes?**

A. The Staff appears to have adopted the Companies' conclusory logic as articulated in the testimony Mr. Kalata as well as in the Companies' responses to OEG-1-6 and 1-8 (pension expense) and OEG-1-9 and 1-10 (other post-retirement benefits expense). The Companies' rationale is limited to the conclusory statement that only the service cost component of these expense amounts should be used for ratemaking purposes and the corollary conclusory statement that the financing components of the SFAS 87 and SFAS 106 expense amounts should be excluded. The Companies claim that any "excess or shortfall related to the expected return on plan assets are not included because their inclusion would artificially reduce or increase total costs and result in the recovery of more or less than the actual normal cost of service," based on its responses to OEG-1-6 and 1-10. I have attached a copy of the Companies' responses to OEG-1-6 through 1-10 as my Exhibit___(LK-8).

Q. Is it reasonable to use only the service cost component for ratemaking purposes?

A. No. It is unreasonable to remove the financing components of these expenses and the Companies have provided no compelling reason to do so. First, the Companies' conclusory statements are directly contrary to the logic relied on by the Financial Accounting Standards Board ("FASB") when it adopted SFAS 87 and SFAS 106 as generally accepted accounting principles ("GAAP"). The interest income and interest expense are specific and integral components of the SFAS 87 and SFAS 106 expense amounts. The reason that they are specific and integral components of these GAAP expense amounts is that they are necessary to correctly reflect the net cost of providing the pension and post-retirement benefits to employees over their service lives. In SFAS 87, the FASB stated:

> **The *net cost* feature means that the recognized consequences of events and transactions affecting a pension plan are reported as a single net amount (net periodic pension cost) in the employer's financial statements. That approach aggregates at least three items that might be reported separately for any other part of an employer's operations: the compensation cost of benefits promised, interest cost resulting from deferred payment of those benefits, and the results of investing what are often significant amounts of assets.**

In addition, the FASB rejected different accounting for certain industries, specifically "rate-regulated enterprises" subject to SFAS 71. In SFAS 87, the FASB stated:

> **Some respondents argued that accounting requirements should be different for employers subject to certain types of regulation (rate-regulated enterprises) or for employers that have certain types of government contracts for which reimbursement is a function of the costs incurred. In both those cases it was noted that a change in reported net periodic pension cost might have a direct effect on the revenues of the employer (lower cost would result in reduced revenues), or conversely, that increases in reported net periodic pension cost would not be recoverable. The Board understands the practical concerns of those respondents, but it concluded that the cost of a particular pension benefit is not changed by the circumstances described and that this Statement should include no special provisions relating to such employers.**

Further, the FASB noted that if regulators chose to provide rate recovery based on a different quantification, then SFAS 71 might require the establishment of regulatory assets or liabilities, but in any event, the ratemaking recovery would not change the SFAS 87 accounting requirements.

> **For rate-regulated enterprises, FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation,* may require that the difference between net periodic pension cost as defined in this Statement and amounts of pension cost considered for rate-making purposes be recognized as an asset or a liability created by the actions of the regulator. Those actions of the regulator change the timing of recognition of net pension cost as an expense; they do no otherwise affect the requirements of this Statement.**

The significance of this last SFAS 87 citation is that if the Commission chooses to change the timing of the recovery of pension costs compared to the SFAS 87 amounts and actually increases the amount recovered in accordance with the Staff recommendation and the Companies' request, then it also should require the creation of a regulatory liability for the excess recovery. Of course, the better option is simply to provide recovery at the SFAS 87 expense amount, no more and no less.

Second, the Commission should be aware that the three components of SFAS 87 and SFAS 106 expense amounts are analogous to the three components of nuclear decommissioning expense, another expense with which the Commission may be familiar. Similar to the SFAS 87 and SFAS 106 expenses, nuclear decommissioning expense includes three components, all three of which are necessary to comprehensively and properly record the expense based on a future obligation. There is the escalation, or interest expense, on the present value of the obligation. In addition, there are the earnings associated with the funds already held in the trust fund. Finally, there is the annual service cost. In my experience, the nuclear decommissioning expense is always comprised of these three components; the escalation (interest expense) and trust fund earnings are not excluded.

Third, it should be self-evident that the interest income (trust fund earnings) should be reflected in pension and post-retirement benefits expense recovered from ratepayers because the ratepayers paid the amounts used by the Companies to fund the respective trust funds. The Companies simply state that these income amounts, which reduce the pension and post-retirement benefits expense, should be ignored for ratemaking purposes. Simply stating that does not provide a rationale, let alone a sufficient rationale, to deviate from GAAP for ratemaking purposes or to ignore the fact that ratepayers funded these trust funds.

Fourth, the interest expense (escalation) should be charged to ratepayers because it represents the growth in the future liability in the current year, necessary to increase the net present value of the liability from the end of the prior year to the end of the current year. The pension and trust fund liabilities initially are computed in nominal (future dollars) terms based on projections of future employee levels, employee pay increases and other factors. These future dollars then are discounted for the cost of money to a net present value obligation. Then each year the expense is increased to include the growth in the present value obligation from the end of the prior year.

In summary, the exclusion of two out of the three components of the pension and other post-retirement benefits expenses results in arbitrary and unreasonable expense amounts and will result in a mismatch between the revenues recovered and the GAAP expenses, thus improperly inflating the Companies' income. The interest income and interest expense do not "artificially" reduce or increase the pension and post-retirement benefits expense. These components are essential to correctly stating these expenses for ratemaking purposes. Further, if the Commission chooses to recognize amounts other than the SFAS 87 and SFAS 106 expense amounts, then it should require the Companies defer the excess of the regulatory expenses over the GAAP expenses and to establish regulatory liabilities so that there is a proper match between the expense recorded on the Companies' accounting books and the revenues recovered for those expenses. Otherwise, the GAAP expense will be less than the recoveries and this mismatch will simply increase each Company's net income.

Long-Term Incentive Compensation

Q. Please describe the long-term incentive compensation expense included by the Staff and the Companies in the revenue requirement for each Company.

A. The Staff included $5.078 million for Ohio Edison, $4.623 million for Cleveland Electric and $2.218 million for Toledo Edison in long-term incentive compensation expense. These expense amounts equate to $5.125 million in additional revenue requirements for Ohio Edison, $4.658 million for Cleveland Electric, and $2.240 million for Toledo Edison.

The [t]est year long-term incentive compensation is based primarily on assumptions related to the performance of FirstEnergy's stock," according to the Companies' response to OEG-1-20, which I have attached as my Exhibit___(LK-9). "The purpose of the Plan is to promote the success of the Company and its Subsidiaries by providing incentives to key employees and Directors that will link their personal interests to the long-term financial success of the Company and its Subsidiaries and to increase shareholder value," according to the FirstEnergy 2007 Proxy Statement.

Q. Should the Commission include the long-term incentive compensation expense in the revenue requirement?

A. No. The long-term incentive compensation expenses should not be included in the revenue requirement. The cost of these incentive compensation programs is incurred to improve the FirstEnergy Corp. financial performance for the benefit of shareholders, not to improve customer service or meet other regulated utility service requirements. In fact, the objectives of maximizing shareholder value on the one hand and minimizing costs to ratepayers on the other hand, generally are opposed to each other.

In addition, the inclusion of this expense in the revenue requirement essentially becomes self-fulfilling. It is no longer an incentive expense if the recovery essentially is guaranteed.

Finally, it is an absurd proposition to require ratepayers to pay for the financial performance of the FirstEnergy unregulated affiliates, at least three of which directly benefit from their affiliate relationships with the Companies.

IV. RATE OF RETURN ISSUES

Capital Structure

Q. Please describe the capital structure for the Companies used by the Staff to develop the overall rate of return.

A. The Staff used the consolidated FirstEnergy Corp. capital structure for this purpose, consisting of 56.25% long term debt and 43.75% common equity. The Staff included no short term debt and made no distinction between the Operating Companies or to reflect the lower level of risk associated with distribution-only electric utilities compared to vertically integrated electric utilities with generation assets and risk exposure. The Staff recommendation compares to the Companies' proposal to use the average of the capital structures for only the three Companies for each Company consisting of 43.76% long term debt and 56.24% common equity.

Q. Does the Staff proposal fully recognize the lower risk of a distribution only utility?

A. No, although it recognizes in part the integrated nature of the FirstEnergy Corp. regulated and unregulated affiliates and the fact that the three Companies in the aggregate had far richer common equity ratios than the other FirstEnergy Corp. affiliates in the aggregate. The Staff proposal recognizes in part the fact that the debt rating agencies consider all the FirstEnergy affiliates together and that the leverage at the parent company and in the unregulated affiliates affects the debt ratings of the three Companies. The Staff proposal also recognizes implicitly that FirstEnergy Corp. is using the richer common equity ratios of the Companies to support loans from the three Companies to its two unregulated generation subsidiaries. However, the Staff proposal does not fully recognize that the capital structure for ratemaking purposes should reflect the risk of a distribution-only utility, which allows for greater debt leverage in order to optimize (minimize) the cost to ratepayers within a reasonable range.

Q. What is a reasonable capital structure for a distribution-only electric utility?

A. A reasonable capital structure consists of 60% debt (long-term and short-term) and 40% common equity. There is no question that the cost of debt is less than the cost of common equity. Thus, it makes sense to maximize the level of debt compared to common equity within a reasonable range.

Further, the Companies' actual capital structures are solely within the discretion of FirstEnergy Corp., subject to various debt covenants. Thus, FirstEnergy Corp. can and has used the common equity of the three Companies to finance loans to the two unregulated generation affiliates rather than taking cash for the sale of its generation assets to the unregulated affiliates, using those amounts to pay a dividend to FirstEnergy Corp. and in that manner reducing the common equity ratios of the three Companies.

The Public Utility Commission of Texas ("PUCT") addressed the issue of an appropriate or optimal capital structure in a statewide generic proceeding in conjunction with the deregulation of the generation function of its jurisdictional electric utilities and rate unbundling. The PUCT concluded that the proper capital structure for regulated transmission and distribution utilities was 60% debt and 40% common equity. The PUCT since has affirmed its position in the generic proceeding by using this same capital structure in subsequent rate cases involving the transmission and distribution utilities. As a result, the utilities have modified their actual capital structures to conform more closely to that recognized for ratemaking purposes. I have attached a copy of the PUCT Order in Docket No. 22344 as my Exhibit___(LK-10). This Order discusses the basis for its decision and the tradeoffs between the increased financial risk of greater debt leverage and the reduced business risk due of transmission and distribution utilities compared to vertically integrated utilities.

Q. How did you quantify the effect of your recommendation to use a 60% debt and

40% common equity ratio?

A. First, I recomputed the grossed-up cost of capital as detailed in Section II of my Exhibit___(LK-3). Second, I computed the difference in the grossed-up cost of capital from the Staff Reports as detailed in Section I of my Exhibit__(LK-3). Third, I multiplied this difference in the grossed-up rates of return times the OEG recommended rate base for each of the Companies.

Effect of OEG Recommended Return on Common Equity

Q. Have you quantified the effect of the OEG recommendation through Mr. Baudino of a return on common equity of 9.70% compared to the Staff low and high recommendations?

A. Yes. The effect is to reduce the revenue requirement for Ohio Edison by $2.263 million from the Staff low recommendation and by $9.051 million from the Staff high recommendation. The Cleveland Electric revenue requirement is reduced by $1.923 million from the Staff low recommendation and by $7.693 million from the Staff high recommendation. The Toledo Edison revenue requirement is reduced by $0.709 million from the Staff low recommendation and by $2.836 million from the Staff high recommendation. I computed the difference in the grossed-up rates of return between Sections II and III on my Exhibit___(LK-3). Section II of Exhibit___(LK-3) reflects my recommendation to use the 60% debt and 40% common equity capital structure. Section III reflects the capital structure recommendation and the OEG recommendation for return on equity. I then multiplied these differences (high and low) in the grossed-up rates of return times the OEG recommended rate base for each Company.

Q. Does this complete your testimony?

A. Yes.

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. 07-551-EL-AIR**
Edison Company for Authority to	)	**Case No. 07-552-EL-ATA**
Increase Rates for Distribution Service,	)	**Case No. 07-553-EL-AAM**
Modify Certain Accounting Practices	)	**Case No. 07-554-EL-UNC**
and for Tariff Approvals	)	

EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF THE

OHIO ENERGY GROUP, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

JANUARY 2008

EXHIBIT ___(LK-1)

RESUME OF LANE KOLLEN, VICE PRESIDENT

EDUCATION

University of Toledo, BBA
Accounting

University of Toledo, MBA

Luther Rice University, MA

PROFESSIONAL CERTIFICATIONS

Certified Public Accountant (CPA)

Certified Management Accountant (CMA)

PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants

Georgia Society of Certified Public Accountants

Institute of Management Accountants

More than thirty years of utility industry experience in the financial, rate, tax, and planning areas. Specialization in revenue requirements analyses, taxes, evaluation of rate and financial impacts of traditional and nontraditional ratemaking, utility mergers/acquisition and diversification. Expertise in proprietary and nonproprietary software systems used by utilities for budgeting, rate case support and strategic and financial planning.

RESUME OF LANE KOLLEN, VICE PRESIDENT

EXPERIENCE

1986 to Present:

J. Kennedy and Associates, Inc.: Vice President and Principal. Responsible for utility stranded cost analysis, revenue requirements analysis, cash flow projections and solvency, financial and cash effects of traditional and nontraditional ratemaking, and research, speaking and writing on the effects of tax law changes. Testimony before Connecticut, Florida, Georgia, Indiana, Louisiana, Kentucky, Maine, Maryland, Minnesota, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Texas, West Virginia and Wisconsin state regulatory commissions and the Federal Energy Regulatory Commission.

1983 to 1986:

Energy Management Associates: Lead Consultant.
Consulting in the areas of strategic and financial planning, traditional and nontraditional ratemaking, rate case support and testimony, diversification and generation expansion planning. Directed consulting and software development projects utilizing PROSCREEN II and ACUMEN proprietary software products. Utilized ACUMEN detailed corporate simulation system, PROSCREEN II strategic planning system and other custom developed software to support utility rate case filings including test year revenue requirements, rate base, operating income and pro-forma adjustments. Also utilized these software products for revenue simulation, budget preparation and cost-of-service analyses.

1976 to 1983:

The Toledo Edison Company: Planning Supervisor.
Responsible for financial planning activities including generation expansion planning, capital and expense budgeting, evaluation of tax law changes, rate case strategy and support and computerized financial modeling using proprietary and nonproprietary software products. Directed the modeling and evaluation of planning alternatives including:

Rate phase-ins.
Construction project cancellations and write-offs.
Construction project delays.
Capacity swaps.
Financing alternatives.
Competitive pricing for off-system sales.
Sale/leasebacks.

RESUME OF LANE KOLLEN, VICE PRESIDENT

CLIENTS SERVED

Industrial Companies and Groups

Air Products and Chemicals, Inc.
Airco Industrial Gases
Alcan Aluminum
Armco Advanced Materials Co.
Armco Steel
Bethlehem Steel
Connecticut Industrial Energy Consumers
ELCON
Enron Gas Pipeline Company
Florida Industrial Power Users Group
Gallatin Steel
General Electric Company
GPU Industrial Intervenors
Indiana Industrial Group
Industrial Consumers for
Fair Utility Rates - Indiana
Industrial Energy Consumers - Ohio
Kentucky Industrial Utility Customers, Inc.
Kimberly-Clark Company
Lehigh Valley Power Committee
Maryland Industrial Group
Multiple Intervenors (New York)
National Southwire
North Carolina Industrial
Energy Consumers
Occidental Chemical Corporation
Ohio Energy Group
Ohio Industrial Energy Consumers
Ohio Manufacturers Association
Philadelphia Area Industrial Energy
Users Group
PSI Industrial Group
Smith Cogeneration
Taconite Intervenors (Minnesota)
West Penn Power Industrial Intervenors
West Virginia Energy Users Group
Westvaco Corporation

Regulatory Commissions and Government Agencies

Cities in Texas-New Mexico Power Company's Service Territory
Cities in AEP Texas Central Company's Service Territory
Cities in AEP Texas North Company's Service Territory
Georgia Public Service Commission Staff
Kentucky Attorney General's Office, Division of Consumer Protection
Louisiana Public Service Commission Staff
Maine Office of Public Advocate
New York State Energy Office
Office of Public Utility Counsel (Texas)

Utilities

Allegheny Power System
Atlantic City Electric Company
Carolina Power & Light Company
Cleveland Electric Illuminating Company
Delmarva Power & Light Company
Duquesne Light Company
General Public Utilities
Georgia Power Company
Middle South Services
Nevada Power Company
Niagara Mohawk Power Corporation
Otter Tail Power Company
Pacific Gas & Electric Company
Public Service Electric & Gas
Public Service of Oklahoma
Rochester Gas and Electric
Savannah Electric & Power Company
Seminole Electric Cooperative
Southern California Edison
Talquin Electric Cooperative
Tampa Electric
Texas Utilities
Toledo Edison Company

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
10/86	U-17282 Interim	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
11/86	U-17282 Interim Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
12/86	9613	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Revenue requirements accounting adjustments financial workout plan.
1/87	U-17282 Interim	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements, financial solvency.
3/87	General Order 236	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Tax Reform Act of 1986.
4/87	U-17282 Prudence	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
4/87	M-100 Sub 113	NC	North Carolina Industrial Energy Consumers	Duke Power Co.	Tax Reform Act of 1986.
5/87	86-524-E-	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements. Tax Reform Act of 1986.
5/87	U-17282 Case In Chief	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Case In Chief Surrebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Prudence Surrebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
7/87	86-524 E-SC Rebuttal	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements, Tax Reform Act of 1986.
8/87	9885	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Financial workout plan.
8/87	E-015/GR-87-223	MN	Taconite Intervenors	Minnesota Power & Light Co.	Revenue requirements, O&M expense, Tax Reform Act of 1986.
10/87	870220-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, Tax Reform Act of 1986.
11/87	87-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Tax Reform Act of 1986.
1/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, rate of return.
2/88	9934	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Economics of Trimble County completion.
2/88	10064	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, O&M expense, capital structure, excess deferred income taxes.
5/88	10217	KY	Alcan Aluminum National Southwire	Big Rivers Electric	Financial workout plan. Corp.
5/88	M-87017 -1C001	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery.
5/88	M-87017 -2C005	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery.
6/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1 economic analyses, cancellation studies, financial modeling.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
7/88	M-87017--1C001 Rebuttal	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery, SFAS No. 92
7/88	M-87017--2C005 Rebuttal	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery, SFAS No. 92
9/88	88-05-25	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Excess deferred taxes, O&M expenses.
9/88	10064 Rehearing	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Premature retirements, interest expense.
10/88	88-170-EL-AIR	OH	Ohio Industrial Energy Consumers	Cleveland Electric Illuminating Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.
10/88	88-171-EL-AIR	OH	Ohio Industrial Energy Consumers	Toledo Edison Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.
10/88	8800 355-EI	FL	Florida Industrial Power Users' Group	Florida Power & Light Co.	Tax Reform Act of 1986, tax expenses, O&M expenses, pension expense (SFAS No. 87).
10/88	3780-U	GA	Georgia Public Service Commission Staff	Atlanta Gas Light Co.	Pension expense (SFAS No. 87).
11/88	U-17282 Remand	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Rate base exclusion plan (SFAS No. 71)
12/88	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87).
12/88	U-17949 Rebuttal	LA	Louisiana Public Service Commission Staff	South Central Bell	Compensated absences (SFAS No. 43), pension expense (SFAS No. 87), Part 32, income tax normalization.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
2/89	U-17282 Phase II	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, phase-in of River Bend 1, recovery of canceled plant.
6/89	881602-EU 890326-EU	FL	Talquin Electric Cooperative	Talquin/City of Tallahassee	Economic analyses, incremental cost-of-service, average customer rates.
7/89	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87), compensated absences (SFAS No. 43), Part 32.
8/89	8555	TX	Occidental Chemical Corp.	Houston Lighting & Power Co.	Cancellation cost recovery, tax expense, revenue requirements.
8/89	3840-U	GA	Georgia Public Service Commission Staff	Georgia Power Co.	Promotional practices, advertising, economic development.
9/89	U-17282 Phase II Detailed	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
10/89	8880	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Deferred accounting treatment, sale/leaseback.
10/89	8928	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Revenue requirements, imputed capital structure, cash working capital.
10/89	R-891364	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements.
11/89 12/89	R-891364 Surrebuttal (2 Filings)	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements, sale/leaseback.
1/90	U-17282 Phase II Detailed Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements detailed investigation.

**Expert Testimony Appearances
of
Lane Kollen
As of January 2008**

Date	Case	Jurisdict.	Party	Utility	Subject
1/90	U-17282 Phase III	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Phase-in of River Bend 1, deregulated asset plan.
3/90	890319-EI	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	890319-EI Rebuttal	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Fuel clause, gain on sale of utility assets.
9/90	90-158	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, post-test year additions, forecasted test year.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements.
3/91	29327, et. al.	NY	Multiple Intervenors	Niagara Mohawk Power Corp.	Incentive regulation.
5/91	9945	TX	Office of Public Utility Counsel of Texas	El Paso Electric Co.	Financial modeling, economic analyses, prudence of Palo Verde 3.
9/91	P-910511 P-910512	PA	Allegheny Ludlum Corp., Armco Advanced Materials Co., The West Penn Power Industrial Users' Group	West Penn Power Co.	Recovery of CAAA costs, least cost financing.
9/91	91-231 -E-NC	WV	West Virginia Energy Users Group	Monongahela Power Co.	Recovery of CAAA costs, least cost financing.
11/91	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Asset impairment, deregulated asset plan, revenue requirements.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
12/91	91-410-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
12/91	10200	TX	Office of Public Utility Counsel of Texas	Texas-New Mexico Power Co.	Financial integrity, strategic planning, declined business affiliations.
5/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, pension expense, OPEB expense, fossil dismantling, nuclear decommissioning.
8/92	R-00922314	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
9/92	92-043	KY	Kentucky Industrial Utility Consumers	Generic Proceeding	OPEB expense.
9/92	920324-EI	FL	Florida Industrial Power Users' Group	Tampa Electric Co.	OPEB expense.
9/92	39348	IN	Indiana Industrial Group	Generic Proceeding	OPEB expense.
9/92	910840-PU	FL	Florida Industrial Power Users' Group	Generic Proceeding	OPEB expense.
9/92	39314	IN	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	OPEB expense.
11/92	U-19904	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
11/92	8649	MD	Westvaco Corp., Eastalco Aluminum Co.	Potomac Edison Co.	OPEB expense.
11/92	92-1715-AU-COI	OH	Ohio Manufacturers Association	Generic Proceeding	OPEB expense.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
12/92	R-00922378	PA	Armco Advanced Materials Co., The WPP Industrial Intervenors	West Penn Power Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
12/92	U-19949	LA	Louisiana Public Service Commission Staff	South Central Bell	Affiliate transactions, cost allocations, merger.
12/92	R-00922479	PA	Philadelphia Area Industrial Energy Users' Group	Philadelphia Electric Co.	OPEB expense.
1/93	8487	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Bethlehem Steel Corp.	OPEB expense, deferred fuel, CWIP in rate base
1/93	39498	IN	PSI Industrial Group	PSI Energy, Inc.	Refunds due to over-collection of taxes on Marble Hill cancellation.
3/93	92-11-11	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	OPEB expense.
3/93	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy	Merger. Corp.
3/93	93-01 EL-EFC	OH	Ohio Industrial Energy Consumers	Ohio Power Co.	Affiliate transactions, fuel.
3/93	EC92-21000 ER92-806-000	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
4/93	92-1464-EL-AIR	OH	Air Products Armco Steel Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
4/93	EC92-21000 ER92-806-000 (Rebuttal)	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
9/93	93-113	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Fuel clause and coal contract refund.
9/93	92-490, 92-490A, 90-360-C	KY	Kentucky Industrial Utility Customers and Kentucky Attorney General	Big Rivers Electric Corp.	Disallowances and restitution for excessive fuel costs, illegal and improper payments, recovery of mine closure costs.
10/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Revenue requirements, debt restructuring agreement, River Bend cost recovery.
1/94	U-20647	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	Audit and investigation into fuel clause costs.
4/94	U-20647 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Nuclear and fossil unit performance, fuel costs, fuel clause principles and guidelines.
5/94	U-20178	LA	Louisiana Public Service Commission Staff	Louisiana Power & Light Co.	Planning and quantification issues of least cost integrated resource plan.
9/94	U-19904 Initial Post-Merger Earnings Review	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
9/94	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	G&T cooperative ratemaking policies, exclusion of River Bend, other revenue requirement issues.
10/94	3905-U	GA	Georgia Public Service Commission Staff	Southern Bell Telephone Co.	Incentive rate plan, earnings review.
10/94	5258-U	GA	Georgia Public Service Commission Staff	Southern Bell Telephone Co.	Alternative regulation, cost allocation.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
11/94	U-19904 Initial Post-Merger Earnings Review (Rebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
11/94	U-17735 (Rebuttal)	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, exclusion of River Bend, other revenue requirement issues.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Revenue requirements. Fossil dismantling, nuclear decommissioning.
6/95	3905-U	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Incentive regulation, affiliate transactions, revenue requirements, rate refund.
6/95	U-19904 (Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
10/95	95-02614	TN	Tennessee Office of the Attorney General Consumer Advocate	BellSouth Telecommunications, Inc.	Affiliate transactions.
10/95	U-21485 (Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.
11/95	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission	Gulf States Utilities Co. Division	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
11/95 12/95	U-21485 (Supplemental Direct) U-21485 (Surrebuttal)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
1/96	95-299-EL-AIR 95-300-EL-AIR	OH	Industrial Energy Consumers	The Toledo Edison Co. The Cleveland Electric Illuminating Co.	Competition, asset writeoffs and revaluation, O&M expense, other revenue requirement issues.
2/96	PUC No. 14967	TX	Office of Public Utility Counsel	Central Power & Light	Nuclear decommissioning.
5/96	95-485-LCS	NM	City of Las Cruces	El Paso Electric Co.	Stranded cost recovery, municipalization.
7/96	8725	MD	The Maryland Industrial Group and Redland Genstar, Inc.	Baltimore Gas & Electric Co., Potomac Electric Power Co. and Constellation Energy Corp.	Merger savings, tracking mechanism, earnings sharing plan, revenue requirement issues.
9/96 11/96	U-22092 U-22092 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues, allocation of regulated/nonregulated costs.
10/96	96-327	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corp.	Environmental surcharge recoverable costs.
2/97	R-00973877	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Stranded cost recovery, regulatory assets and liabilities, intangible transition charge, revenue requirements.
3/97	96-489	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	Environmental surcharge recoverable costs, system agreements, allowance inventory, jurisdictional allocation.
6/97	TO-97-397	MO	MCI Telecommunications Corp., Inc., MCImetro Access Transmission Services, Inc.	Southwestern Bell Telephone Co.	Price cap regulation, revenue requirements, rate of return.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
6/97	R-00973953	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
7/97	R-00973954	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
7/97	U-22092	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Depreciation rates and methodologies, River Bend phase-in plan.
8/97	97-300	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas & Electric Co. and Kentucky Utilities Co.	Merger policy, cost savings, surcredit sharing mechanism, revenue requirements, rate of return.
8/97	R-00973954 (Surrebuttal)	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
10/97	97-204	KY	Alcan Aluminum Corp. Southwire Co.	Big Rivers Electric Corp.	Restructuring, revenue requirements, reasonableness
10/97	R-974008	PA	Metropolitan Edison Industrial Users Group	Metropolitan Edison Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements.
10/97	R-974009	PA	Penelec Industrial Customer Alliance	Pennsylvania Electric Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements.
11/97	97-204 (Rebuttal)	KY	Alcan Aluminum Corp. Southwire Co.	Big Rivers Electric Corp.	Restructuring, revenue requirements, reasonableness of rates, cost allocation.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
11/97	U-22491	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, other revenue requirement issues.
11/97	R-00973953 (Surrebuttal)	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
11/97	R-973981	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, fossil decommissioning, revenue requirements, securitization.
11/97	R-974104	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements, securitization.
12/97	R-973981 (Surrebuttal)	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, fossil decommissioning, revenue requirements.
12/97	R-974104 (Surrebuttal)	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements, securitization.
1/98	U-22491 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, other revenue requirement issues.
2/98	8774	MD	Westvaco	Potomac Edison Co.	Merger of Duquesne, AE, customer safeguards, savings sharing.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
3/98	U-22092 (Allocated Stranded Cost Issues)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Restructuring, stranded costs, regulatory assets, securitization, regulatory mitigation.
3/98	8390-U	GA	Georgia Natural Gas Group, Georgia Textile Manufacturers Assoc.	Atlanta Gas Light Co.	Restructuring, unbundling, stranded costs, incentive regulation, revenue requirements.
3/98	U-22092 (Allocated Stranded Cost Issues) (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Restructuring, stranded costs, regulatory assets, securitization, regulatory mitigation.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Restructuring, unbundling, stranded costs, T&D revenue requirements.
10/98	9355-U	GA	Georgia Public Service Commission Adversary Staff	Georgia Power Co.	Affiliate transactions.
10/98	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, other revenue requirement issues.
11/98	U-23327	LA	Louisiana Public Service Commission Staff	SWEPCO, CSW and AEP	Merger policy, savings sharing mechanism, affiliate transaction conditions.
12/98	U-23358 (Direct)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.
12/98	98-577	ME	Maine Office of Public Advocate	Maine Public Service Co.	Restructuring, unbundling, stranded cost, T&D revenue requirements.
1/99	98-10-07	CT	Connecticut Industrial Energy Consumers	United Illuminating Co.	Stranded costs, investment tax credits, accumulated deferred income taxes, excess deferred income taxes.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
3/99	U-23358 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.
3/99	98-474	KY	Kentucky Industrial Utility Customers	Louisville Gas and Electric Co.	Revenue requirements, alternative forms of regulation.
3/99	98-426	KY	Kentucky Industrial Utility Customers	Kentucky Utilities Co.	Revenue requirements, alternative forms of regulation.
3/99	99-082	KY	Kentucky Industrial Utility Customers	Louisville Gas and Electric Co.	Revenue requirements.
3/99	99-083	KY	Kentucky Industrial Utility Customers	Kentucky Utilities Co.	Revenue requirements.
4/99	U-23358 (Supplemental Surrebuttal)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.
4/99	99-03-04	CT	Connecticut Industrial Energy Consumers	United Illuminating Co.	Regulatory assets and liabilities, stranded costs, recovery mechanisms.
4/99	99-02-05	CT	Connecticut Industrial Utility Customers	Connecticut Light and Power Co.	Regulatory assets and liabilities stranded costs, recovery mechanisms.
5/99	98-426 99-082 (Additional Direct)	KY	Kentucky Industrial Utility Customers	Louisville Gas and Electric Co.	Revenue requirements.
5/99	98-474 99-083 (Additional Direct)	KY	Kentucky Industrial Utility Customers	Kentucky Utilities Co.	Revenue requirements.
5/99	98-426 98-474 (Response to Amended Applications)	KY	Kentucky Industrial Utility Customers	Louisville Gas and Electric Co. and Kentucky Utilities Co.	Alternative regulation.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
6/99	97-596	ME	Maine Office of Public Advocate	Bangor Hydro-Electric Co.	Request for accounting order regarding electric industry restructuring costs.
6/99	U-23358	LA	Louisiana Public Public Service Comm. Staff	Entergy Gulf States, Inc.	Affiliate transactions, cost allocations.
7/99	99-03-35	CT	Connecticut Industrial Energy Consumers	United Illuminating Co.	Stranded costs, regulatory assets, tax effects of asset divestiture.
7/99	U-23327	LA	Louisiana Public Service Commission Staff	Southwestern Electric Power Co., Central and South West Corp, and American Electric Power Co.	Merger Settlement Stipulation.
7/99	97-596 (Surrebuttal)	ME	Maine Office of Public Advocate	Bangor Hydro-Electric Co.	Restructuring, unbundling, stranded cost, T&D revenue requirements.
7/99	98-0452-E-GI	WV	West Virginia Energy Users Group	Monongahela Power, Potomac Edison, Appalachian Power, Wheeling Power	Regulatory assets and liabilities.
8/99	98-577 (Surrebuttal)	ME	Maine Office of Public Advocate	Maine Public Service Co.	Restructuring, unbundling, stranded costs, T&D revenue requirements.
8/99	98-426 99-082 (Rebuttal)	KY	Kentucky Industrial Utility Customers	Kentucky Utilities Co.	Revenue requirements.
8/99	98-474 98-083 (Rebuttal)	KY	Kentucky Industrial Utility Customers	Louisville Gas and Electric Co. and Kentucky Utilities Co.	Alternative forms of regulation.
8/99	98-0452-E-GI (Rebuttal)	WV	West Virginia Energy Users Group	Monongahela Power, Potomac Edison, Appalachian Power, Wheeling Power	Regulatory assets and liabilities.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
10/99	U-24182 (Direct)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, affiliate transactions, tax issues, and other revenue requirement issues.
11/99	21527	TX	Dallas-Ft.Worth Hospital Council and Coalition of Independent Colleges and Universities	TXU Electric	Restructuring, stranded costs, taxes, securitization.
11/99	U-23358 Surrebuttal Affiliate Transactions Review	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Service company affiliate transaction costs.
04/00	99-1212-EL-ETP 99-1213-EL-ATA 99-1214-EL-AAM	OH	Greater Cleveland Growth Association	First Energy (Cleveland Electric Illuminating, Toledo Edison)	Historical review, stranded costs, regulatory assets, liabilities.
01/00	U-24182 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, affiliate transactions, tax issues, and other revenue requirement issues.
05/00	2000-107	KY	Kentucky Industrial Utility Customers	Kentucky Power Co.	ECR surcharge roll-in to base rates.
05/00	U-24182 (Supplemental Direct)	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Affiliate expense proforma adjustments.
05/00	A-110550F0147	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy	Merger between PECO and Unicom.
07/00	22344	TX	The Dallas-Fort Worth Hospital Council and The Coalition of Independent Colleges and Universities	Statewide Generic Proceeding	Escalation of O&M expenses for unbundled T&D revenue requirements in projected test year.
05/00	99-1658-EL-ETP	OH	AK Steel Corp.	Cincinnati Gas & Electric Co.	Regulatory transition costs, including regulatory assets and liabilities, SFAS 109, ADIT, EDIT, ITC.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
07/00	U-21453	LA	Louisiana Public Service Commission	SWEPCO	Stranded costs, regulatory assets and liabilities.
08/00	U-24064	LA	Louisiana Public Service Commission Staff	CLECO	Affiliate transaction pricing ratemaking principles, subsidization of nonregulated affiliates, ratemaking adjustments.
10/00	PUC 22350 SOAH 473-00-1015	TX	The Dallas-Ft. Worth Hospital Council and The Coalition of Independent Colleges And Universities	TXU Electric Co.	Restructuring, T&D revenue requirements, mitigation, regulatory assets and liabilities.
10/00	R-00974104 (Affidavit)	PA	*Duquesne Industrial* Intervenors	Duquesne Light Co.	Final accounting for stranded costs, including treatment of auction proceeds, taxes, capital costs, switchback costs, and excess pension funding.
11/00	P-00001837 R-00974008 P-00001838 R-00974009		Metropolitan Edison Industrial Users Group Penelec Industrial Customer Alliance	Metropolitan Edison Co. Pennsylvania Electric Co.	Final accounting for stranded costs, including treatment of auction proceeds, taxes, regulatory assets and liabilities, transaction costs.
12/00	U-21453, U-20925, U-22092 (Subdocket C) (Surrebuttal)	LA	Louisiana Public Service Commission Staff	SWEPCO	Stranded costs, regulatory assets.
01/01	U-24993 (Direct)		Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.
01/01	U-21453, U-20925 and U-22092 (Subdocket B) (Surrebuttal)		Louisiana Public Service Commission Staff	Entergy Gulf States, Inc,.	Industry restructuring, business seperation plan, organization structure, hold harmless conditions, financing.
01/01	Case No. 2000-386	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas & Electric Co.	Recovery of environmental costs, surcharge mechanism.
01/01	Case No. 2000-439	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Recovery of environmental costs, surcharge mechanism.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
02/01	A-110300F0095 A-110400F0040	PA	Met-Ed Industrial Users Group Penelec Industrial Customer Alliance	PU, Inc. FirstEnergy	Merger, savings, reliability.
03/01	P-00001860 P-00001861	PA	Met-Ed Industrial Users Group Penelec Industrial Customer Alliance	Metropolitan Edison Co. and Pennsylvania Electric Co.	Recovery of costs due to provider of last resort obligation.
04/01	U-21453, U-20925, U-22092 (Subdocket B) Settlement Term Sheet	LA	Louisiana Public Public Service Comm. Staff	Entergy Gulf States, Inc.	Business separation plan: settlement agreement on overall plan structure.
04/01	U-21453, U-20925, U-22092 (Subdocket B) Contested Issues	LA	Louisiana Public Public Service Comm. Staff	Entergy Gulf States, Inc.	Business separation plan: agreements, hold harmless conditions, separations methodology.
05/01	U-21453, U-20925, U-22092 (Subdocket B) Contested Issues Transmission and Distribution (Rebuttal)	LA	Louisiana Public Public Service Comm. Staff	Entergy Gulf States, Inc.	Business separation plan: agreements, hold harmless conditions, Separations methodology.
07/01	U-21453, U-20925, U-22092 (Subdocket B) Transmission and Distribution Term Sheet	LA	Louisiana Public Public Service Comm. Staff	Entergy Gulf States, Inc.	Business separation plan: settlement agreement on T&D issues, agreements necessary to implement T&D separations, hold harmless conditions, separations methodology.
10/01	14000-U	GA	Georgia Public Service Commission Adversary Staff	Georgia Power Company	Revenue requirements, Rate Plan, fuel clause recovery.
11/01	14311-U (Direct)	GA	Georgia Public Service Commission Adversary Staff	Atlanta Gas Light Co.	Revenue requirements, revenue forecast, O&M expense, depreciation, plant additions, cash working capital.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
11/01	U-25687 (Direct)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Revenue requirements, capital structure, allocation of regulated and nonregulated costs, River Bend uprate.
02/02	25230	TX	Dallas Ft.-Worth Hospital Council & the Coalition of Independent Colleges & Universities	TXU Electric	Stipulation. Regulatory assets, securitization financing.
02/02	U-25687 (Surrebuttal)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Revenue requirements, corporate franchise tax, conversion to LLC, River Bend uprate.
03/02	14311-U (Rebuttal)	GA	Georgia Public Service Commission Adversary Staff	Atlanta Gas Light Co.	Revenue requirements, earnings sharing plan, service quality standards.
03/02	001148-EI	FL	South Florida Hospital and Healthcare Assoc.	Florida Power & Light Co.	Revenue requirements. Nuclear life extension, storm damage accruals and reserve, capital structure, O&M expense.
04/02	U-25687 (Supplemental Surrebuttal)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Revenue requirements, corporate franchise tax, conversion to LLC, River Bend uprate.
04/02	U-21453, U-20925 and U-22092 (Subdocket C)		Louisiana Public Service Commission Staff	SWEPCO	Business separation plan, T&D Term Sheet, separations methodologies, hold harmless conditions.
08/02	EL01-88-000	FERC	Louisiana Public Service Commission Staff	Entergy Services, Inc. and The Entergy Operating Companies	System Agreement, production cost equalization, tariffs.
08/02	U-25888	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc. and Entergy Louisiana, Inc.	System Agreement, production cost disparities, prudence.
09/02	2002-00224 2002-00225	KY	Kentucky Industrial Utilities Customers, Inc.	Kentucky Utilities Co. Louisville Gas & Electric Co.	Line losses and fuel clause recovery associated with off-system sales.
11/02	2002-00146 2002-00147	KY	Kentucky Industrial Utilities Customers, Inc.	Kentucky Utilities Co. Louisville Gas & Electric Co.	Environmental compliance costs and surcharge recovery.
01/03	2002-00169	KY	Kentucky Industrial Utilities Customers, Inc.	Kentucky Power Co.	Environmental compliance costs and surcharge recovery.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
04/03	2002-00429 2002-00430	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co. Louisville Gas & Electric Co.	Extension of merger surcredit, flaws in Companies' studies.
04/03	U-26527	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Revenue requirements, corporate franchise tax, conversion to LLC, Capital structure, post test year Adjustments.
06/03	EL01-88-000 Rebuttal	FERC	Louisiana Public Service Commission Staff	Entergy Services, Inc. and the Entergy Operating Companies	System Agreement, production cost equalization, tariffs.
06/03	2003-00068	KY	Kentucky Industrial Utility Customers	Kentucky Utilities Co.	Environmental cost recovery, correction of base rate error.
11/03	ER03-753-000	FERC	Louisiana Public Service Commission Staff	Entergy Services, Inc. and the Entergy Operating Companies	Unit power purchases and sale cost-based tariff pursuant to System Agreement.
11/03	ER03-583-000, ER03-583-001, and ER03-583-002 ER03-681-000, ER03-681-001 ER03-682-000, ER03-682-001, and ER03-682-002 ER03-744-000, ER03-744-001 (Consolidated)	FERC	Louisiana Public Service Commission	Entergy Services, Inc., the Entergy Operating Companies, EWO Marketing, L.P, and Entergy Power, Inc.	Unit power purchase and sale agreements, contractual provisions, projected costs, levelized rates, and formula rates.
12/03	U-26527 Surrebuttal	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Revenue requirements, corporate franchise tax, conversion to LLC, Capital structure, post test year adjustments.
12/03	2003-0334 2003-0335	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co. Louisville Gas & Electric Co.	Earnings Sharing Mechanism.
12/03	U-27136	LA	Louisiana Public Service Commission	Entergy Louisiana, Inc.	Purchased power contracts between affiliates, terms and conditions.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
03/04	U-26527 Supplemental Surrebuttal	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Revenue requirements, corporate franchise tax, conversion to LLC, capital structure, post test year adjustments.
03/04	2003-00433	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas & Electric Co.	Revenue requirements, depreciation rates, O&M expense, deferrals and amortization, earnings sharing mechanism, merger surcredit, VDT surcredit.
03/04	2003-00434	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Revenue requirements, depreciation rates, O&M expense, deferrals and amortization, earnings sharing mechanism, merger surcredit, VDT surcredit.
03/04	SOAH Docket 473-04-2459, PUC Docket 29206	TX	Cities Served by Texas-New Mexico Power Co.	Texas-New Mexico Power Co.	Stranded costs true-up, including including valuation issues, ITC, ADIT, excess earnings.
05/04	04-169-EL-UNC	OH	Ohio Energy Group, Inc.	Columbus Southern Power Co. & Ohio Power Co.	Rate stabilization plan, deferrals, T&D rate increases, earnings.
06/04	SOAH Docket 473-04-4555 PUC Docket 29526	TX	Houston Council for Health and Education	CenterPoint Energy Houston Electric	Stranded costs true-up, including valuation issues, ITC, EDIT, excess mitigation credits, capacity auction true-up revenues, interest.
08/04	SOAH Docket 473-04-4556 PUC Docket 29526 (Suppl Direct)	TX	Houston Council for Health and Education	CenterPoint Energy Houston Electric	Interest on stranded cost pursuant to Texas Supreme Court remand.
09/04	Docket No. U-23327 Subdocket B	LA	Louisiana Public Service Commission	SWEPCO	Fuel and purchased power expenses recoverable through fuel adjustment clause, trading activities, compliance with terms of various LPSC Orders.
10/04	Docket No. U-23327 Subdocket A	LA	Louisiana Public Service Commission	SWEPCO	Revenue requirements.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
12/04	Case No. 2004-00321 Case No. 2004-00372	KY	Gallatin Steel Co.	East Kentucky Power Cooperative, Inc., Big Sandy Recc, etal.	Environmental cost recovery, qualified costs, TIER requirements, cost allocation.
01/05	30485	TX	Houston Council for Health and Education	CenterPoint Energy Houston Electric, LLC	
02/05	18638-U	GA	Georgia Public Service Commission	Atlanta Gas Light Co.	Revenue requirements.
02/05	18638-U Panel with Tony Wackerly	GA	Georgia Public Service Commission	Atlanta Gas Light Co.	Comprehensive rate plan, pipeline replacement program surcharge, performance based rate plan.
02/05	18638-U Panel with Michelle Thebert	GA	Georgia Public Service Commission	Atlanta Gas Light Co.	Energy conservation, economic development, and tariff issues.
03/05	Case No. 2004-00426 Case No. 2004-00421	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co. Louisville Gas & Electric	Environmental cost recovery, Jobs Creation Act of 2004 and § 199 deduction, excess common equity ratio, deferral and amortization of nonrecurring O&M expense.
06/05	2005-00068	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	Environmental cost recovery, Jobs Creation Act of 2004 and §199 deduction, margins on allowances used for AEP system sales.
06/05	050045-EI	FL	South Florida Hospital and Healthcare Assoc.	Florida Power & Light Co.	Storm damage expense and reserve, RTO costs, O&M expense projections, return on equity performance incentive, capital structure, selective second phase post-test year rate increase.
08/05	31056	TX	The Alliance of	AEP Texas Valley Healthcare	Stranded cost true-up including regulatory Central Co. assets and liabilities, ITC, EDIT, capacity auction, proceeds, excess mitigation credits, retrospective and prospective ADIT.
09/05	20298-U	GA	Georgia Public Service Commission	Atmos Energy Corp.	Revenue requirements, roll-in of surcharges, cost recovery through surcharge, reporting requirements.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
09/05	20298-U Panel with Victoria Taylor	GA	Georgia Public Service Commission	Atmos Energy Corp.	Affiliate transactions, cost allocations, capitalization, cost of debt.
11/05	2005-00351 2005-00352	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co. Louisville Gas and Electric Co.	Workforce Separation Program cost recovery and shared savings through VDT surcredit.
10/05	04-42	DE	Commission Staff	Artesian Water Co.	
01/06	2005-00341	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	System Sales Clause Rider, Environmental Cost Recovery Rider. Net Congestion Rider, Storm damage, vegetation management program, depreciation, off-system sales, maintenance normalization, pension and OPEB.
03/06 05/06	31994 31994 Supplemental	TX	Cities	Texas-New Mexico Power Co.	Stranded cost recovery through competition transition or charge. Retrospective ADIF, prospective ADFIT.
03/06	U-21453, U-20925, U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Jurisdictional separation plan.
3/06	NOPR Reg 104385-OR	IRS	Alliance for Valley Health Care and Houston Council for Health Education	AEP Texas Central Company and CenterPoint Energy Houston Electric	Proposed Regulations affecting flow-through to ratepayers of excess deferred income taxes and investment Tax credits on generation plant that is sold or deregulated.
4/06	U-25116	LA	Louisiana Public Service Commission	Entergy Louisiana, Inc.	2002-2004 Audit of Fuel Adjustment Clause Filings. Affiliate transactions.
06/06	31994	TX	Cities Served by Texas-Mexico Power Co.	Texas New Mexico Power	
07/06	R-00061366, Et. al	PA	Met-Ed Ind. Users Group Pennsylvania Ind. Customer Alliance	Metropolitan Edison Co. Pennsylvania Electric Co.	Recovery of NUG-related stranded costs, government mandated programs costs, storm damage costs.
08/06	U-21453, U-20925 U-22092 (Subdocket J)	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Jurisdictional separation plan.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
07/06	U-23327	LA	Louisiana Public Service Commission	Southwestern Electric Power Co.	Revenue requirements, formula rate plan, banking proposal.
11/06	05CVH03-3375 Franklin County Court Affidavit	OH	Various Taxing Authorities (Non-Utility Proceeding)	State of Ohio Department of Revenue	Accounting for nuclear fuel assemblies as manufactured equipment and capitalized plant.
12/06	U-23327 Subdocket A Reply Testimony	LA	Louisiana Public Service Commission	Southwestern Electric Power Co..	Revenue requirements, formula rate plan, banking proposal.
03/07	U-29764	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc., Entergy Louisiana, LLC	Jurisdictional allocation of Entergy System Agreement equalization remedy receipts.
03/07	33309	TX	Cities	AEP Texas Central Co.	
03/07	33310	TX	Cities	AEP Texas North Co.	
03/07	2006-00472	KY	Kentucky Industrial Utility Customers, Inc.	East Kentucky Power Cooperative	Interim rate increase, RUS loan covenants, credit facility requirements, financial condition.
03/07	U-29157	LA	Louisiana Public Service Commission	Cleco Power, LLC	Permanent (Phase II) storm damage cost recovery.
04/07	U-29764 Supplemental And Rebuttal	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc. Entergy Louisiana, LLC	Jurisdictional allocation of Entergy System Agreement equalization remedy receipts.
04/07	ER07-682-000 Affidavit	FERC	Louisiana Public Service Commission Staff	Entergy Services, Inc. and the Entergy Operating Companies	Allocation of intangible and general plant and A&G expenses to production and state income tax effects on equalization remedy receipts
04/07	ER07-684-000 Affidavit	FERC	Louisiana Public Service Commission Staff	Entergy Services, Inc. and the Entergy Operating Companies	Fuel hedging costs and compliance with FERC USOA.
05/07	ER07-682-000 Affidavit	FERC	Louisiana Public Service Commission Staff	Entergy Services, Inc. and the Entergy Operating Companies	Allocation of intangible and general plant and A&G expenses to production and account 924 effects on MSS-3 equalization remedy payments and receipts.

Expert Testimony Appearances
of
Lane Kollen
As of January 2008

Date	Case	Jurisdict.	Party	Utility	Subject
06/07	U-29764	LA	Louisiana Public Service Commission	Entergy Louisiana, LLC Entergy Gulf States, Inc.	Show cause for violating LPSC Order on fuel hedging costs.
07/07	2006-00472	KY	Kentucky Industrial Utility Customers, Inc.	East Kentucky Power Cooperative	Revenue requirements, post test year adjustments, TIER, surcharge revenues and costs, financial need.
07/07	ER07-956-000 Affidavit	LA	Louisiana Public Service Commission	Entergy Services, Inc.	Storm damage costs related to Hurricanes Katrina and Rita and effects of MSS-3 equalization payments and receipts.
10/07	05-UR-103 Direct	WI	Public Service Commission of Wisconsin	Wisconsin Electric Power Company Wisconsin Gas, LLC	Revenue requirements, carrying charges on CWIP, amortization and return on regulatory assets, working capital, incentive compensation, use of rate base in lieu of capitalization, CWIP in rate base, quantification and use of Point Beach sale proceeds.
10/07	05-UR-103 Surrebuttal	WI	Public Service Commission of Wisconsin	Wisconsin Electric Power Company Wisconsin Gas, LLC	Revenue requirements, carrying charges on CWIP, amortization and return on regulatory assets, working capital, incentive compensation, use of rate base in lieu of capitalization, CWIP in rate base, quantification and use of Point Beach sale proceeds.
10/07	25060-U Direct	GA	Georgia Public Service Commission	Georgia Power Company	Affiliate costs, incentive compensation, consolidated income taxes, §199 deduction.
11/07	06-0033-E-CN Direct	WV	West Virginia Energy Users Group	Appalachian Power Company	IGCC surcharge during construction period post-in-service date.
11/07	ER07-682-000 Direct	FERC	Louisiana Public Service Commission	Entergy Services, Inc. and the Entergy Operating Companies	Functionalization and allocation of intangible and general plant and A&G expenses.

EXHIBIT ____(LK-2)

Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company
Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
OEG Recommended RCP Distribution Deferral Amortization
(000's)

Acct		OE	CEI	TE
182.3	RCP Distribution O&M Deferral Recommended by Staff	$ 107,557	$ 69,160	$ 35,598
283	RCP Distribution O&M Deferral Recommended by Staff	(39,238)	(24,596)	(12,944)
	RCP Distribution O&M Deferral Net of ADIT	68,318	44,564	22,654
	Revenue Requirement Included in Staff Reports			
	Return on Rate Base Using Debt Only ROR	4,249	2,772	1,409
	Straight Line Amortization of Principal Amount over 25 Years	4,302	2,766	1,424
	Total Before Uncollectible Accounts Expense	8,552	5,538	2,833
	Revenue Conversion Factor for Uncollectible Accounts Expense	1.0092294	1.0076653	1.0097379
	Revenue Req Included in Staff Reports	8,631	5,581	2,861
	Annuitized Amortization and Return			
	Annuitized Annual Amortization Amount over 25 Years	6,925	4,524	2,305
	Rev. Req. Adjustment to Reflect Annuitized Return	(1,705)	(1,057)	(556)

EXHIBIT ___(LK-3)

Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company
Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
Summary OEG Cost of Capital Recommendations - Ohio Edison Company

I. Ohio Edison Company's Cost of Capital Per Staff Recommendation

	Capital Amounts	Capital Ratio	Lower Bound Component Costs	Lower Bound Weighted Avg Cost	Lower Bound Grossed Up Cost	Upper Bound Component Costs	Upper Bound Weighted Avg Cost	Upper Bound Grossed Up Cost
Long Term Debt	10,920,840	56.25%	6.22%	3.50%	3.50%	6.22%	3.50%	3.50%
Common Equity	8,493,079	43.75%	10.06%	4.40%	7.01%	11.09%	4.85%	7.73%
Total Capital	19,413,919	100.00%		7.90%	10.51%		8.35%	11.23%

II. Ohio Edison Company's Cost of Capital Adjusted to Set Capital Structure at 60% Debt and 40% Common Equity

	Capital Ratio	Lower Bound Component Costs	Lower Bound Weighted Avg Cost	Lower Bound Grossed Up Cost	Upper Bound Component Costs	Upper Bound Weighted Avg Cost	Upper Bound Grossed Up Cost
Long Term Debt	60.00%	6.22%	3.73%	3.73%	6.22%	3.73%	3.73%
Common Equity	40.00%	10.06%	4.02%	6.41%	11.09%	4.44%	7.08%
Total Capital	100.00%		7.75%	10.14%		8.17%	10.81%

III. Ohio Edison Company's Cost of Capital Adjusted to Reflect OEG ROE of 9.70%

	Capital Ratio	Lower Bound Component Costs	Lower Bound Weighted Avg Cost	Lower Bound Grossed Up Cost	Upper Bound Component Costs	Upper Bound Weighted Avg Cost	Upper Bound Grossed Up Cost
Long Term Debt	60.00%	6.22%	3.73%	3.73%	6.22%	3.73%	3.73%
Common Equity	40.00%	9.70%	3.88%	6.18%	9.70%	3.88%	6.18%
Total Capital	100.00%		7.61%	9.91%		7.61%	9.91%

Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company
Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
Summary OEG Cost of Capital Recommendations - The Cleveland Electric Illuinating Company

I. The Cleveland Electric Illuminating Company's Cost of Capital Per Staff Recommendation

	Capital Amounts	Capital Ratio	Lower Bound Component Costs	Lower Bound Weighted Avg Cost	Lower Bound Grossed Up Cost	Upper Bound Component Costs	Upper Bound Weighted Avg Cost	Upper Bound Grossed Up Cost
Long Term Debt	10,920,840	56.25%	6.22%	3.50%	3.50%	6.22%	3.50%	3.50%
Common Equity	8,493,079	43.75%	10.06%	4.40%	7.04%	11.09%	4.85%	7.76%
Total Capital	19,413,919	100.00%		7.90%	10.54%		8.35%	11.26%

II. The Cleveland Electric Illuminating Company's Cost of Capital Adjusted to Set Capital Structure at 60% Debt and 40% Common Equity

	Capital Ratio	Lower Bound Component Costs	Lower Bound Weighted Avg Cost	Lower Bound Grossed Up Cost	Upper Bound Component Costs	Upper Bound Weighted Avg Cost	Upper Bound Grossed Up Cost
Long Term Debt	60.00%	6.22%	3.73%	3.73%	6.22%	3.73%	3.73%
Common Equity	40.00%	10.06%	4.02%	6.43%	11.09%	4.44%	7.10%
Total Capital	100.00%		7.75%	10.16%		8.17%	10.83%

III. The Cleveland Electric Illuminating Company's Cost of Capital Adjusted to Reflect OEG ROE of 9.70%

	Capital Ratio	Lower Bound Component Costs	Lower Bound Weighted Avg Cost	Lower Bound Grossed Up Cost	Upper Bound Component Costs	Upper Bound Weighted Avg Cost	Upper Bound Grossed Up Cost
Long Term Debt	60.00%	6.22%	3.73%	3.73%	6.22%	3.73%	3.73%
Common Equity	40.00%	9.70%	3.88%	6.21%	9.70%	3.88%	6.21%
Total Capital	100.00%		7.61%	9.94%		7.61%	9.94%

Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company
Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
Summary OEG Cost of Capital Recommendations - The Toledo Edison Company

I. The Toledo Edison Company's Cost of Capital Per Staff Recommendation

	Capital Amounts	Capital Ratio	Lower Bound Component Costs	Lower Bound Weighted Avg Cost	Lower Bound Grossed Up Cost	Upper Bound Component Costs	Upper Bound Weighted Avg Cost	Upper Bound Grossed Up Cost
Long Term Debt	10,920,840	56.25%	6.22%	3.50%	3.50%	6.22%	3.50%	3.50%
Common Equity	8,493,079	43.75%	10.06%	4.40%	7.06%	11.09%	4.85%	7.78%
Total Capital	19,413,919	100.00%		7.90%	10.56%		8.35%	11.28%

II. The Toledo Edison Company's Cost of Capital Adjusted to Set Capital Structure at 60% Debt and 40% Common Equity

	Capital Ratio	Lower Bound Component Costs	Lower Bound Weighted Avg Cost	Lower Bound Grossed Up Cost	Upper Bound Component Costs	Upper Bound Weighted Avg Cost	Upper Bound Grossed Up Cost
Long Term Debt	60.00%	6.22%	3.73%	3.73%	6.22%	3.73%	3.73%
Common Equity	40.00%	10.06%	4.02%	6.45%	11.09%	4.44%	7.12%
Total Capital	100.00%		7.75%	10.18%		8.17%	10.85%

III. The Toledo Edison Company's Cost of Capital Adjusted to Reflect OEG ROE of 9.70%

	Capital Ratio	Lower Bound Component Costs	Lower Bound Weighted Avg Cost	Lower Bound Grossed Up Cost	Upper Bound Component Costs	Upper Bound Weighted Avg Cost	Upper Bound Grossed Up Cost
Long Term Debt	60.00%	6.22%	3.73%	3.73%	6.22%	3.73%	3.73%
Common Equity	40.00%	9.70%	3.88%	6.22%	9.70%	3.88%	6.22%
Total Capital	100.00%		7.61%	9.95%		7.61%	9.95%

EXHIBIT ____(LK-4)

Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company
Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
OEG Recommendation to Remove Energy for Education frm CWC Calculation
For the Test Year Ended February 29, 2008
(000's)

		OE	CEI	TE
Lag/(Lead) Days for Electric Revenues With EE Revenues per Staff	(1)	22.9	27.7	29.6
Lag/(Lead) Days for Electric Revenues Without EE Revenues	(2)	40.2	39.5	40.8
Cash Working Capital Related to Electric Revenues per Staff	(1)	30,569	31,961	11,913
Cash Working Capital Related to Electric Revenues WO EE Revenues		53,717	45,581	16,429
Adjustment to Remove Effect of EE from CWC		23,148	13,620	4,516

(1) Source: Cash Working Capital Analysis on Staff Schedule B-5.1.
(2) Source: Revenue lag Schedule from Companies' Updated Filing, WPB-5.0b. Revenue Lag days were not adjusted by the Staff.

EXHIBIT ____(LK-5)

Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Increase Rates for Distribution Service, Modify Certain Accounting Practices and for Tariff Approvals

RESPONSES TO DATA REQUESTS

OEG – SET 1 Question #16

a. Please describe how the Companies account(ed) for the deferred Ohio state income taxes that have and/or will become excess deferred income taxes as the Ohio state corporate income tax is phased out.

b. Please describe whether, and if so, how the Companies flowed back to ratepayers through a reduction in the claimed revenue requirement the deferred Ohio state income taxes that have and/or will become excess deferred income taxes as the Ohio state corporate income tax is phased out. If the Companies have not done so, then please explain why they have not done so.

c. For each Company, please provide the amount of Ohio state deferred income taxes at December 31, 2004, December 31, 2005, December 31, 2006, and May 31, 2007 by temporary difference.

d. For each Company, please provide the amount of Ohio state deferred income taxes that were flowed back to income in each year 2004, 2005, 2006 and projected for 2007 by temporary difference. Separate these amounts into amounts that were flowed back as the result of normal reversals of temporary differences and those amounts that were deemed excess deferred income taxes due to the phase-out of the Ohio state corporate income tax.

Response:

a. Most of the deferred income taxes associated with Ohio were written off in June 2005. Separate DIT tracking accounts (282021, 283021) were set up in August 2005 to account for the remaining few items with Ohio DIT balances. Attached are copies of June 2007 accrual workpapers supporting these few remaining items and the associated DIT entries that were made in June 2007. See OEG Set 1- 16 Attachment 1.pdf

b. There has been no flowback of previous years' tax differences because to do so would be contrary to general rate making principles.

c. CEI Ohio DIT balance by timing difference -

12/31/04:	12,188,089
12/31/05:	4,564,433
12/31/06:	3,405,956
5/31/07:	3,231,839

OECO Ohio DIT balance by timing difference -

12/31/04:	24,343,937
12/31/05:	(4,672,547)
12/31/06:	(2,673,112)
5/31/07:	(2,569,136)

TECO Ohio DIT balance by timing difference -

12/31/04:	17,204,068
12/31/05:	(246,338)
12/31/06:	(397,548)
5/31/07:	(419,506)

d. CEI Ohio DIT - normal reversals

2005:	747,817
2006:	1,158,477
2007:	683,996

CEI Ohio DIT - excess due to phase-out

2005: 6,875,839

OECO Ohio DIT - normal reversals

2005:	(544,465)
2006:	1,999,435
2007:	1,032,777

OECO Ohio DIT - excess due to phase-out

2005: 28,439,019

TECO Ohio DIT - normal reversals

2005:	244,957
2006:	36,095
2007:	10,478

A2

FE West
OH Deferred Income Tax Adjustments
2nd Quarter 2005

	Co Code	Ohio Deferred Taxes	Reverse Restructuring Entries	State NOL Credits	OCI	Qualifying Asset Retirements	Phase-out Period Scheduling	Income Tax Increase/(Decrease)
Ohio Edison	OE01	50,630,388	(30,058,520)		3,772,069	(3,834,710)	7,929,792	28,439,019
CEI	CE01	20,057,259	(6,379,593)		(1,489,577)	A3 (2,597,894)	A3 (2,714,356)	A3 6,875,839
Toledo Edison	TE01	6,745,821	12,081,256		(1,625,771)	A3 (710,428)	A3 711,809	A3 17,202,687
Penn Power	PP01	31,673			23,239			54,912
FE Corp	1000	(2,094,289)		(1,665,418)	7,922,289			4,162,572
FE Service Company	SC00	2,729,731			4,540,596			7,270,327
FE Solutions	1100	2,718,298		(5,483,939)	94,010			(2,671,631)
FENOC	1200	7,123,520		(1,864,726)				5,258,794
ATSI	1300	(4,069,222)						(4,069,222)
FE Generation	1101	(3,148,311)						(3,148,311)
Bay Shore Power	1410	(333,370)						(333,370)
FE Telecom Services	1650	7,939						7,939
FE Ventures	1400	369,457						369,457
FE Property	1600	202,128						202,128
OES Nuclear	OE04	(3,498,808)						(3,498,808)
Fiber Ventures Equity	1406	763,630						763,630
FE Telecom Corp.	1407	63,497						63,497
The E Group	1408	92,950						92,950
FE Facilities Services Group	1500	(686)						(686)
HVAC Companies	1700	4,451,489						4,451,489
License Holding Company	1750	2,598						2,598
Marbel	1800	-						-
OES Capital	OE02	-						-
Centerior Funding	CE03	-						-
TE Capital	TE02	-						-
OES Ventures	OE06	55,668						55,668
		82,901,350	(24,356,857)	(9,014,083)	13,236,855	(7,143,032)	5,927,245	61,551,478

Change - OCI Aug. Adjust. 989,809

20-Oct-05

DGC
10/20/05

A3

2005

SAP

Account Line Item Display

Selections | Dispute Case

account no. 283021 & 282021
ny Code CE01

CoCd	Account	Period	Doc. Date	DocumentNo	Reference	Type	Amount in local currency			
CE01	283021	8	08/29/2005	100014107	14750015531	JT	8,998,722.00			
CE01	282021	8	08/29/2005	100014107	14750015531	JT	3,686,472.00-			
				100014107			(A) 5,312,250.00			
CE01	282021	9	10/05/2005	100017446	14502014005	JT	1,115,932.00			
CE01	283021	9	10/05/2005	100017446	14502014005	JT	[illegible]			
CE01	283021	9	10/05/2005	100017446	14502014005	JT	987,085.00-			
				100017446			(B) 13,395.00			
CE01	283021	11	12/01/2005	100021192	14570015531	JT	[illegible]305,610.00			
CE01	282021	11	12/01/2005	100021192	14570015531	JT	398,576.00-			
CE01	283021	11	12/01/2005	100021192	14520015531	JT	[illegible]			
				100021192			(B) 761,412.00-			
							[illegible] 564,432.00			

Δ SIGNS

A1 Σ(B) = 747,817

st has been sorted

OH Def Tax:

A2	2,597,894.+		
⊥	2,714,356.+		
Σ(A) =	5,312,250.◇	Remaining	
A1, A2	6,875,839.+	write-off	
A1	12,188,089.◇	2004 Bal.	

sday, Aug 01, 2007 10:58 AM

A4

282021
283021

Account Edit Goto Environment System Help

L Account Balance Display

Document currency | Document currency | Document currency | Business area | Business area | Business area | Individual account

ount number

npany code CE01 CLEVELAND ELECTRIC CO

siness area

cal year 2005

documents in currency Display currency USD

od	Debit	Credit	Balance	Cum. balance
carried...				
	8,998,722.00	3,686,472.00	5,312,250.00	5,312,250.00
	1,115,932.00	1,102,337.00	13,595.00	5,325,845.00
				5,325,845.00
	385,818.00	1,147,230.00	761,412.00-	4,564,433.00
				4,564,433.00
				4,564,433.00
				4,564,433.00
				4,564,433.00
				4,564,433.00
	10,500,472.00	5,936,039.00	4,564,433.00	A1 4,564,433.00

D SSP (1) (010) sapsspa4 INS

A5

ccount Edit Goto Environment System Help

L Account Balance Display

Document currency | Document currency | Document currency | Business area | Business area | Business area | Individual account

count number

mpany code CE01 CLEVELAND ELECTRIC CO

siness area

cal year 2006

documents in currency * Display currency USD

od	Debit	Credit	Balance	Cum. balance
carried...				4,584,433.00
				4,584,433.00
				4,584,433.00
	986,800.00	1,272,489.00	285,889.00-	4,278,744.00
				4,278,744.00
				4,278,744.00
		303,805.00	303,805.00-	3,974,939.00
				3,874,939.00
				3,974,939.00
		298,992.00	298,992.00-	3,675,947.00
				3,675,947.00
				3,675,947.00
	17,604.00	287,595.00	269,991.00-	3,405,956.00
				3,405,956.00
				3,405,958.00
				3,405,956.00
				3,405,956.00
	1,004,404.00	2,167,881.00 A\	1,158,477.00- A\	3,405,956.00

Δ 516 J

SSP (1) (010) sapsspa4 INS

nesday Aug 01 2007 01:39 PM

A6

...count Edit Goto Environment System Help

Account Balance Display

Document currency | Document currency | Document currency | Business area | Business area | Business area | Individual account

...ount number: 283021 & 282021

...pany code: CE01 CLEVELAND ELECTRIC CO

...ness area

...al year: 2007

...ocuments in currency: * Display currency: USD

...d	Debit	Credit	Balance	Cum. balance
...arried...				B 3,405,956.00
				3,405,956.00
				3,405,956.00
		A 267,872.00	267,872.00-	3,138,084.00
				3,138,084.00
				3,138,084.00
	903,091.00	258,279.00	644,812.00	3,782,896.00
				3,782,896.00
				3,782,896.00
				3,782,896.00
				3,782,896.00
				3,782,896.00
				3,782,896.00
				3,782,896.00
				3,782,896.00
				3,782,896.00
				3,782,896.00
	903,091.00	526,151.00	376,940.00	3,782,896.00

3,231,839

SSP (1) (010) sapsspe4 INS

A (267,872)

A7 93,755 FIT

(174,117) Net of FIT

B 3,405,956

A1 3,231,839 ← May, 2007 bal

A7

Document Overview

Choose Save Tax data

```
:.type : JZ (JE-Tax entries) Normal document
Ked by        EAILOGIN        Posted by      14985
:. number     100006738       Company code   CE01          Fiscal year   2007
:. date       04/04/2007      Posting date   03/31/2007    Period        03
'.doc.        14502042193
:.currency    USD
:.head.text   CECO MAR 2007 ACCR

PK CoCd Accoun          Amount  G/L acct long text
 Tr.prt   Partner  Profit c  WBS element   Order   Network

40 CE01 201010         99,324.00  Fed-Acc Def Inc Taxes-Accel Amort Prop
               PCDUMMY                                  90345
40 CE01 201020            542.00  St-Acc Def Inc Taxes-Accel Amort Prop
               PCDUMMY                                  90345
50 CE01 282010         99,324.00- ACCUM DEF INC TAXES-LIBERAL DEPREC-OPER-FED
               PCDUMMY                                  90346
50 CE01 282020            542.00- ACCUM DEF INC TAXES-LIBERAL DEPREC-OPER-ST/LOCAL
               PCDUMMY                                  90346
50 CE01 410100         93,755.00- Income Taxes-Util Oper Inc-Federal-Deferred    420032   420032
               4990
40 CE01 410130        267,872.00  Income Taxes-Util Oper Inc-State-Deferred      420032   420032
               4990
40 CE01 283010 A5      93,755.00  OTHER ACCUM DEF INC TAXES-OPER-FEDERAL
               PCDUMMY                                  90346
50 CE01 283021        267,872.00- Other Accum Def Inc Taxes-Oper-Ohio
               PCDUMMY                                  90346
40 CE01 182315        232,289.00  Oth Reg Asset-FAS 109 Deferred Income Taxes
               4990
50 CE01 282015        221,514.00- ACCUM DEF INC TAXES-LIBERAL DEPREC-OTHER-FED
               PCDUMMY                                  90347
50 CE01 282025         10,775.00- ACCUM DEF INC TAXES-LIBERAL DEPREC-OTHER-ST/LOCAL
               PCDUMMY                                  90347
```

SSP (1) (010) sapssp04 INS

esdav. Aug 01, 2007 02:12 PM

CECO Ohio Deferred Tax Adjustment
Year 2007

Description	Jan	Feb	Quarter Mar	Apr	May	Quarter Jun
Postretirement Benefits - Payment	27,273	12,900	54,608	16,286	14,058	47,471
Above Market Lease	163,000	163,000	489,000	163,000	163,000	486,544
Depreciation - Book > Tax	(91,912)	(91,912)	(275,736)	(91,912)	(91,912)	(275,736)
CAT Tax	0	0	0	0	0	0
Total Ohio State	98,361	83,988	267,872	87,374	85,146	258,279
FIT Rate	35%	35%	35%	35%	35%	35%
FIT	34,426	29,396	93,755	30,581	29,801	90,398
Net of FIT	63,935	54,592	A 174,117	56,793	55,345	B 167,881
Ohio Deferred Tax at 100% vs. Accrual 0%	0	-	-	0	-	-
Total OH Tax Adjustment	63,935	54,592	174,117	56,793	55,345	167,881

S:\Tax_new\2007\Accounting\Accrual\All Companies\(OH Def Tax Adj 2007.xls)CEI

3.2600%	3.2600%	3.2600%	3.2600%	3.2600%	3.2600%
836,601	395,691	1,675,090	499,576	431,218	1,456,162
27,273	12,900	54,608	16,286	14,058	47,471
5,000,000	5,000,000	15,000,000	5,000,000	5,000,000	14,924,677
163,000	163,000	489,000	163,000	163,000	486,544
(2,819,387)	(2,819,387)	(8,458,161)	(2,819,387)	(2,819,387)	(8,458,161)
(91,912)	(91,912)	(275,736)	(91,912)	(91,912)	(275,736)

A 174,117
B 167,881
341,998
x2
A1 683,996

A8

FE West
OH Deferred Income Tax Adjustments
2nd Quarter 2005

A2

	Co Code	Ohio Deferred Taxes	Reverse Restructuring Entries	State NOL Credits	OCI	Qualifying Asset Retirements	Phase-out Period Scheduling	Income Tax Increase/(Decrease)
Ohio Edison	OE01	50,630,388	(30,058,520)		3,772,069	(3,834,710)	7,929,792	28,439,019
CEI	CE01	20,057,259	(6,379,593)		(1,489,577)	(2,597,894)	(2,714,356)	6,875,839
Toledo Edison	TE01	6,745,821	12,081,256		(1,625,771)	A3 (710,428)	A3 711,809	A3 17,202,687
Penn Power	PP01	31,673			23,239			54,912
FE Corp	1000	(2,094,299)		(1,665,418)	7,922,289			4,162,572
FE Service Company	SC00	2,729,731			4,540,596			7,270,327
FE Solutions	1100	2,718,298		(5,483,939)	94,010			(2,671,631)
FENOC	1200	7,123,520		(1,864,726)				5,258,794
ATSI	1300	(4,069,222)						(4,069,222)
FE Generation	1101	(3,148,311)						(3,148,311)
Bay Shore Power	1410	(333,370)						(333,370)
FE Telecom Services	1650	7,939						7,939
FE Ventures	1400	369,457						369,457
FE Property	1600	202,126						202,126
OES Nuclear	OE04	(3,498,808)						(3,498,808)
Fiber Ventures Equity	1406	763,630						763,630
FE Telecom Corp.	1407	63,497						63,497
The E Group	1408	92,950						92,950
FE Facilities Services Group	1500	(686)						(686)
HVAC Companies	1700	4,451,489						4,451,489
License Holding Company	1750	2,598						2,598
Marbel	1800	-						-
OES Capital	OE02	-						-
Centerior Funding	CE03	-						-
TE Capital	TE02	-						-
OES Ventures	OE06	55,668						55,668
		82,901,350	(24,356,857)	(9,014,083)	13,236,855	(7,143,032)	5,927,245	61,551,476

Change - OCI Aug. Adjust. 989,809

20-Oct-05

DGC
10/20/05

A:

TE01
2005
282021, 283021

List Edit Goto Extras Environment System Help

G/L Account Line Item Display

Selections | Dispute Case

Status: ✔ Posted △ Parked ◙ open ☐ Cleared

G/L account no.
Company Code TE01

	Order	Reference	DocumentNo	BA	Type	Doc. Date	PK	Amount in local currency	LCurr	Tx	Clrng doc.
]	90276	14750015531	100010251		JT	08/29/2005	50	1,643,071.00-	USD		
]	90276	14750015531	100010251		JT	08/29/2005	40	1,641,690.00	USD		
*			100010251					A 1,381.00-	USD		
]	90353	14502015725	100012451		JT	10/05/2005	40	111,526.00	USD		
*			100012451					B 111,526.00	USD		
]	90276	14502015725	100012452		JT	10/05/2005	50	223,052.00-	USD		
*			100012452					223,052.00-	USD		
]	90276	14570015531	100014738		JT	12/01/2005	40	322,746.00	USD		
]	90276	14570015531	100014738		JT	12/01/2005	50	322,746.00-	USD		
]	90276	14570015531	100014738		JT	12/01/2005	50	133,431.00-	USD		
*			100014738					B 133,431.00-	USD		
**								A4 246,338.00-	USD		

List has been sorted

A2 710,428 • -
711,809 • +
Σ A 1,381 • * +

111,526 • +
223,052 • -
133,431 • -
∴ Σ B (244,957) * +
A SIGNS A1 ≈ +244,957
1,381 • +
WRITE OFF A2 17,202,687 • +
2004 BAL. A1 17,204,068 • * +

...sday, Aug 09, 2007 09:10 AM

A4

282021
283021

Account Edit Goto Environment System Help

SAP

G/L Account Balance Display

Document currency | Document currency | Document currency | Business area | Business area | Business area

Account number
Company code TE01 TOLEDO EDISON CO
Business area
Fiscal year 2005
All documents in currency * Display currency USD

Period	Debit	Credit	Balance	Cumulative balance
Bal. carried f..				
[illegible]				
[illegible]				
[illegible]				
[illegible]				
[illegible]				
[illegible]				
[illegible]				
[illegible]	1,641,690.00	1,643,071.00	1,381.00-	1,381.00-
[illegible]	111,526.00	223,052.00	111,526.00-	112,907.00-
[illegible]				112,907.00-
[illegible]	322,746.00	456,177.00	133,431.00-	246,338.00-
[illegible]				A3, A7 246,338.00-

SSP (1) (010) sapsap2 INS

A:

282021
283021

Account Edit Goto Environment System Help

SAP

G/L Account Balance Display

Document currency | Document currency | Document currency | Business area | Business area | Business area

Account number
Company code TE01 TOLEDO EDISON CO
Business area
Fiscal year 2006
All documents in currency Display currency USD

Period	Debit	Credit	Balance	Cumulative balance
Bal. carried f...				246,338.00-
				246,338.00-
				246,338.00-
	189,350.00	236,660.00	47,310.00-	293,648.00-
				293,648.00-
				293,648.00-
	186,423.00	229,079.00	42,656.00-	336,304.00-
				336,304.00-
				336,304.00-
	203,692.00	228,841.00	25,149.00-	361,453.00-
				361,453.00-
				361,453.00-
	186,264.00	222,359.00	36,095.00-	A1 397,548.00-

SSP (1) (010) sapsspe2 INS

Δ SIGN
A1 +36,095

AC

282024
283021

Account Edit Goto Environment System Help

G/L Account Balance Display

Document currency | Document currency | Document currency | Business area | Business area | Business area

Account number
Company code TED1 TOLEDO EDISON CO
Business area
Fiscal year 2007
All documents in currency Display currency USD

Period	Debit	Credit	Balance	Cumulative balance
Bal. carried f...				397,548.00-
				397,548.00-
				397,548.00-
	109,851.00	131,809.00	21,958.00-	419,506.00-
				419,506.00-
				A1 419,506.00- 5/31/07
	142,730.00	253,558.00	110,828.00-	530,334.00-
				530,334.00-
				530,334.00-
				530,334.00-
				530,334.00-
				530,334.00-
				530,334.00-

SSP (1) (010) sapsspe2 INS

...sday, Aug 02, 2007 08:17 AM

TECO Ohio Deferred Tax Adjustment
Year 2007

Description		Jan	Feb	Quarter Mar	Apr	May	Quarter Jun
Postretirement Benefits - Payment		8,404	1,748	11,738	1,962	2,297	6,293
Shopping Credit		(23,779)	(22,284)	(46,063)	(44,710)	(23,819)	(96,646)
Above Market Lease		63,681	63,681	191,044	63,681	63,681	187,571
Depreciation - Book > Tax		(40,979)	(40,979)	(122,938)	(40,979)	(40,979)	(122,938)
CAT Tax		0	0	0	0	0	0
Total Ohio State	YTD = 8,061	7,327	2,166	33,781	(20,046)	1,180	(25,720)
FIT Rate		35%	35%	35%	35%	35%	35%
FIT	YTD = (2821)	2,564	758	11,823	(7,016)	413	(9,002)
Net of FIT		4,763	1,408	A 21,957	(13,030)	767	B (16,718)
Ohio Deferred Tax at 100% - Accrual 0%		0	0	0	0	0	0
Total OH Tax Adjustment		4,763	1,408	21,957	(13,030)	767	A3 (16,718)

S:\Tax_new\2007\Accounting\Accrual\All Companies\[OH Def Tax Adj 2007.xls]TE

Jan	Feb	Quarter	Apr	May	Quarter
3.1064%	3.1064%	3.1064%	3.1064%	3.1064%	3.1064%
270,533	56,264	377,853	63,173	73,955	202,586
8,404	1,748	11,738	1,962	2,297	6,293
(2,296,462)	(2,152,091)	(4,448,553)	(4,317,867)	(2,300,348)	* (9,333,609)
(23,779)	(22,284)	(46,063)	(44,710)	(23,819)	(96,646)
2,050,000	2,050,000	6,150,000	2,050,000	2,050,000	6,038,226
63,681	63,681	191,044	63,681	63,681	187,571
(1,319,190)	(1,319,190)	(3,957,570)	(1,319,190)	(1,319,190)	(3,957,570)
(40,979)	(40,979)	(122,938)	(40,979)	(40,979)	(122,938)

ies\[OH Def Tax Adj 2007.xls]TE

2007 EST.
A 21,957
B (16,718)
5,239
x2
A1 10,478

A1

Toledo Edison Company
FERC Balances at 12/31/06

A/C	Stat Order	Description	Category	Balance at 12/31/06	2007 Budget	2 mos 2008 Budget	Balance at 2/29/08
190	0	Accounts Receivable Accrual	Elect - Other Misc	(93,581)	0	0	(93,581)
190	0	Blue Cross/ Blue Shield Close Out	Elect - Other Misc	(57,272)	0	0	(57,272)
190	0	Capitalized Items - CSC	Elect - Other Misc	(164,716)	0	0	(164,716)
190	90407	~~Cost of Removal~~	Elect - Other Misc	0	0	0	0
190	0	Customer Energy Management	Elect - Other Misc	(305,985)	0	0	(305,985)
190	0	Deferred Fuel - Rule 21	Elect - Other Misc	(3,405,705)	0	0	(3,405,705)
190	90359	Emission Allowance	Elect - Other Misc	214,345	0	0	214,345
190	0	Employee Contract Payment	Elect - Other Misc	(40,744)	0	0	(40,744)
190	90362	Energy Management Program	Elect - Other Misc	1,135,619	0	0	1,135,619
190	0	Nuclear Plants Refueling Outage Accrual	Elect - Other Misc	(2,828,657)	0	0	(2,828,657)
190	0	Phase In O&M Costs - Beaver Valley	Elect - Other Misc	(1,593,864)	0	0	(1,593,864)
190	0	Phase In O&M Costs - Perry	Elect - Other Misc	(355,443)	0	0	(355,443)
190	0	Plant Consulting	Elect - Other Misc	(47,354)	0	0	(47,354)
190	0	Professional Fees	Elect - Other Misc	26,165	0	0	26,165
190	0	R&D Books Capitalized	Elect - Other Misc	702,039	0	0	702,039
190	0	Reengineering Feature Design	Elect - Other Misc	(227,888)	0	0	(227,888)
190	0	System Development Cost	Elect - Other Misc	(14,539)	0	0	(14,539)
190	0	VBM	Elect - Other Misc	(186,544)	0	0	(186,544)
			Total Misc 190:	(7,244,124)	0	0	(7,244,124)

17 items

A3

8/3/2007 10:50 AM

SAP

L Account Balance Display

A3

Document currency | Document currency | Document currency | Business area | Business area | Business area

count number 282021 + 283021

mpany code OE01 OHIO EDISON COMPANY

siness area

cal year 2005

documents in currency Display currency USD

iod	Debit	Credit	Balance	Cum. balance
carried...				
	79,423.00	4,174,505.00	4,095,082.00-	A 4,095,082.00-
	1,049,298.00	673,742.00	A 375,556.00	3,719,526.00-
				3,719,526.00-
		953,021.00	A1, A 953,021.00-	4,872,547.00-
	95			4,872,547.00-
				4,872,547.00-
				4,872,547.00-
				4,872,547.00-
				4,872,547.00-
tal	1,128,721.00	5,801,268.00	4,872,547.00-	A 4,872,547.00-

int Window Contents

A = (577,465)
A1

OE 0 *

A2 7,929,792 *
1 3,834,710
\- A 4,095,082

A2 28,439,019
A1 24,343,937

SAP

G/L Account Balance Display

A4

Document currency | Document currency | Document currency | Business area | Business area | Business area | Individual account

Account number

Company code OE01 OHIO EDISON COMPANY

Business area

Fiscal year 2006

All documents in currency Display currency USD

Period	Debit	Credit	Balance	Cum. balance
Bal. carried...				4,872,547.00
[illegible]				4,872,547.00
[illegible]				4,872,547.00
[illegible]	865,084.00	552,784.00	412,300.00	4,260,247.00
[illegible]				4,260,247.00
[illegible]				4,260,247.00
[illegible]	892,949.00	252,807.00	640,142.00	3,620,105.00
[illegible]				3,620,105.00
[illegible]				3,620,105.00
[illegible]	803,139.00	238,101.00	565,038.00	3,055,067.00
0				3,055,067.00
1				3,055,067.00
2	625,747.00	243,792.00	381,955.00	2,673,112.00
3				2,673,112.00
4				2,673,112.00
5				2,673,112.00
6				2,673,112.00
Total	3,286,929.00	1,287,494.00	A1 1,999,435.00	A1 2,673,112.00

Print Window Contents

AS

G/L Account Balance Display

Document currency | Document currency | Document currency | Business area | Business area | Business area

ccount number

ompany code OE01 OHIO EDISON COMPANY

usiness area

iscal year 2007

documents in currency Display currency USD

riod	Debit	Credit	Balance	Cum. balance
l. carried...				2,673,112.00-
				2,673,112.00-
				Ⓐ 2,673,112.00-
	404,472.00	244,508.00	159,964.00	2,513,148.00-
				2,513,148.00-
				2,513,148.00-
	1,121,201.00	248,388.00	872,813.00	1,840,335.00-
				1,840,335.00-
				1,840,335.00-
				1,840,335.00-
				1,840,335.00-
				1,840,336.00-
				1,840,335.00-
				1,840,335.00-
				1,840,336.00-
				1,840,336.00-
				1,840,335.00-
al	1,525,673.00	492,896.00	AL 1,032,777.00	1,840,336.00-

nt Window Contents

Ⓐ 2,673,112

AL (159,964) State.

55,988 Fed.

(2,569,136) 5-31-07 Bal.

A10
A6

OHIO EDISON COMPANY
OHIO DEFERRED TAX ADJ.
JULY-DEC 2005

DESCRIPTION	STAT ORDER	ACCOUNT	QTR MARCH	FIT @ 35%	ACCOUNT
POSTRETIREMENT BENEFITS - PAYMENTS	90340	283021	B 135,064	A (47,272)	283010
SALE/LEASEBACK DEFERRED RENTS	90366	283021	109,444	(38,305)	283010
SHOPPING CREDIT	90357	283021	(206,397)	72,239	283010
DEPRECIATION - BOOK>TAX	90346	282021	B (404,472)	A 141,565	282010
OHIO DEFERRED TAX AT 100% - ACCRUAL 0%			0		
CAT TAX			0		
TOTAL OHIO STATE			A2 (366,361)	A2 128,227	A11 (238134)
		ACCOUNT	A11 410130	A11 410100	NET OF FIT

S:\Tax_new\2007\Accounting\Accrual\OECO\[OE_ACCR_07.xls]OH DEF TAX ADJ CALC

A (159,964) St.
B 55,988 Fed.

Document Edit Goto Settings Extras Environment System Help

Document Overview

Choose Save Tax data

Doc. type	JT (JE Tax entries) Normal document				
Parked by	15531	Posted by	14059		
Doc. number	100035000	Company code	OE01	Fiscal year	2005
Doc. date	12/01/2005	Posting date	11/30/2005	Period	11
Ref. doc.	14570015531	Cross-company n	0100035000OE0105		
Doc. currency	USD				
Doc. head. text	OH DEFERRED TAX NOV 05				

Itm PK CoCd Account Amount G/L acct long text Cost ctr Resp Ctr Tx Jur code Quantity BUn Tr.prt Partner Profit Ctr WBS element Order Network Text

Itm	PK	CoCd	Account		Amount	G/L acct long text / Profit Ctr
1	40	OE01	282010		284,721.00	ACCUM DEF INC TAXES-LIBERAL DEPREC-OPER-FED
					PCDUMMY	90276
2	50	OE01	282021	A	284,721.00-	Accum Def Inc Taxes-Liberal Deprec-Oper-Ohio
					PCDUMMY	90276
3	40	OE01	283020		668,300.00	OTHER ACCUM DEF INC TAXES-OPER-STATE
					PCDUMMY	90276
4	50	OE01	283021	A	668,300.00-	Other Accum Def Inc Taxes-Oper-Ohio
					PCDUMMY	90276

A (953,021)
A3

Friday, Aug 03, 2007 11:51 AM

A7

EXHIBIT ___(LK-6)

Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company
Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
OEG Recommended Amortization of Ohio State EDIT Write-off
(000's)

		OE	CEI	TE
Ohio State Excess Deferred Income Taxes Written Off	(1)	28,439	6,876	17,203
Amortization Period for EDIT Benefits in Years		3	3	3
Annual Income Tax Expense Benefits Based on 3-Yr Amort.		9,480	2,292	5,734
Gross Revenue Conversion Factor		1.5939732	1.5997224	1.6035400
Grossed Up Annual Income Tax Benefits Based on 3-Yr Amort.		15,110	3,666	9,195

(1) June 2005 Writeoff resulting from phase-out of the Ohio state corporate income tax for those net deferred tax benefits not expected to reverse during the 5-yr phase-in period.

EXHIBIT ____(LK-7)

Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company
Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
OEG Recommended Adjustments to ADIT Included in Rate Base
(000's)

Acct	Description		OE	CEI	TE
Amounts Improperly Included In Rate Base					
190	Other Taxes		2,853	8,641	
190	Post Retirement Benefits		60,970		
190	Banked and Accrued Vacation		4,238		
190	Injuries and Damages		2,050		
190	Severance Estimate		527	5,768	1,530
190	Merger Transaction Costs		250		
190	Taxes and Property Taxes Reserve		32,557		
190	Executive Deferred Compensation		5,096		
190	Executive Deferred Compensation Interest		3,208		
190	ESOP - Compensation Expense		14,902		
190	Extraordinary Gain FIN 47		9,258		
190	Pension and Rightsizing Costs			53,336	21,573
190	Vacation Accrual			3,970	
190	Supp Exec Retiremenmt Program - Def Comp			5,274	
190	Incentive Compensation			1,104	269
190	Merger Cost Expensed			2,901	
190	CSC FAS 106 Adj			360	
190	FIN 47			-	
190	Contingency Dura Landfill Cleanup				514
190	Deferred Compensation				3,778
190	Expense Accruals - FAS 112				1,174
190	Health Benefits - FAS 106 (Postretmt Benefits)				7,889
190	Provision for Doubtful Accounts				1,003
190	Vacation Pay Accrual				1,795
283	Pension Expense		(73,039)		
283	Incentive Compensation		(388)		
283	IRS Audit Interest		(817)		
283	Stock Option Expense & Deduction			(234)	
283	Injuries and Damages			(932)	
283	Health Benefits - FAS 106			(2,549)	
283	Stock Options/Performance Shares				(4)
	Net Rate Base Reduction to Remove ADIT Amounts	(1)	61,686	77,637	39,521

Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company
Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
OEG Recommended Adjustments to ADIT Included in Rate Base
(000's)

Acct	*Description*		OE	*CEI*	*TE*
Amounts Improperly Excluded from Rate Base					
190	Gain/Loss on Sale of Securities		(1,722)		
190	*Amortization Premium Discount* Debt			(12,495)	
190	Reacquired Debt Expense				(939)
283	Reacquired Debt Expense		8,391	13,083	
283	Amortization Premium Discount Debt				5,926
	Net Rate Base Reduction to Include ADIT Amounts	(1)	6,669	587	4,987
Total Rate Base Reductions Due to Adjustments in ADIT		(1)	68,334	78,224	44,507

(1) A positive number above represents a reduction to rate base. A negative number represents an increase to rate base. *In addition*, if the descriptions of each ADIT balance did not match identically, the description included in each filing was *listed separately for easier identification*.

EXHIBIT ____(LK-8)

Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Increase Rates for Distribution Service, Modify Certain Accounting Practices and for Tariff Approvals

RESPONSES TO DATA REQUESTS

OEG – SET 1 Question #6 Refer to Schedule C-3.6 and WPC-3.6a. Please explain why the Companies propose to use only the service cost component of pension expense in the revenue requirement. Please cite all authorities, including prior PUCO Orders, if any, that the Companies rely on for using only the service cost component of pension expense in the revenue requirement.

Response: The Companies' test-year claim for pension expense is based on the actuarial-determined service cost component of pension costs under Statement of Financial Accounting Standards ("SFAS") No. 87. The service cost component represents the actual present value of benefits accrued under the pension plan benefit formula for services rendered during the test year. Inclusion of the service cost component in rates provides for recovery of the current cost of benefits earned by plan participants during the test year. Recognition of the service cost component for rates ignores the actual timing of cash contributions to the plan and the consequent investment returns, which tend to be impacted based upon the timing of such contributions and market conditions. Any excess or shortfall related to the expected return on plan assets are not included because their inclusion would artificially reduce or increase total costs and result in the recovery of more or less than the actual normal cost of service. Using the service cost component of pension expense in the revenue requirement ignores investment returns on the invested funds and focuses on the actual costs and benefits to participants each year.

The Companies object to the request for the authorities on which they rely for their position in this proceeding. The information is confidential attorney work product and is therefore not discoverable.

OEG – SET 1
Witness: Kalata

Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Increase Rates for Distribution Service, Modify Certain Accounting Practices and for Tariff Approvals

RESPONSES TO DATA REQUESTS

OEG – SET 1 Question #7 Refer to Schedule C-3.6 and WPC-3.6a. Please provide a copy of the source documents, presumably actuarial reports, relied on by the Companies for both the pension expense included in the budget and the service cost included in the revenue requirement. Reconcile the amounts from the actuarial report to the amounts included in the revenue requirement and budget.

Response: Please see "OEG Set 1 – 7_Attachment 1.xls" and "OEG Set 1 – 7_Attachment 2.xls" for the preliminary source documents from Hewitt Associates supporting the budgeted pension costs for the years ending December 31, 2007 and 2008, respectively.

Please see "OEG Set 1 – 7_Attachment 3.xls" and "OEG Set 1 – 7_Attachment 4.xls" for the revised source documents from Hewitt Associates supporting the service costs for the Companies' pension plan for the years ending December 31, 2007 and 2008, respectively, that are included in the test year revenue requirement.

Please see "OEG Set 1 – 7_Attachment 5.xls" for reconciliations between the source documents from Hewitt Associates and the amounts included in the test year budget and revenue requirement for pension expense.

Please note that Attachments 1, 3, and 4 reflect analyses from Hewitt that have been redacted to exclude information pertaining to certain of FirstEnergy's subsidiaries that are not included in Case No. 07-551-EL-AIR.

FirstEnergy Corporation
FirstEnergy Corporation Pension Plan
Preliminary 2007 FAS 87 Expense by Operating Company

	FirstEnergy Services	Ohio Edison	Toledo Edison	Cleveland Electric
Net Periodic Pension Cost				
Service Cost	$ 18,242,000	$ 6,114,000	$ 2,498,000	$ 5,965,000
Interest Cost	63,358,000	38,082,000	8,897,000	23,137,000
Expected Return on Assets	(99,608,000)	(63,750,000)	(13,418,000)	(34,926,000)
Amortization of Unrecognized:				
Transition (Asset) Obligation	0	0	0	0
Prior Service Costs	1,392,000	2,833,000	584,000	1,473,000
Cumulative Net (Gain) Loss	9,055,000	5,361,000	2,072,000	8,176,000
Net Periodic Pension Cost	$ (7,561,000)	$ (11,360,000)	$ 633,000	$ 3,825,000
FAS 88 Expense	0	0	0	0
Total Expense	$ (7,561,000)	$ (11,360,000)	$ 633,000	$ 3,825,000

	FirstEnergy Services	Ohio Edison	Toledo Edison	Cleveland Electric
Key Assumptions for Pension Cost				
Discount Rate	6.00%	6.00%	6.00%	6.00%
Long-Term Rate of Return on Assets	9.00%	9.00%	9.00%	9.00%
Salary Increases	3.50%	3.50%	3.50%	3.50%
Mortality Rates	RP2000	RP2000	RP2000	RP2000

FirstEnergy Corporation
FirstEnergy Corporation Pension Plan
Preliminary 2008 FAS 87 Expense

		2008
Net Periodic Pension Cost		
Service Cost	$	89,378,000
Interest Cost		293,846,000
Expected Return on Assets		(465,091,000)
Amortization of Unrecognized:		
Transition (Asset) Obligation		0
Prior Service Costs		9,647,000
Cumulative Net (Gain) Loss		39,626,000
Net Periodic Pension Cost	$	(32,594,000)
FAS 88 Expense		0
Total Expense	$	(32,594,000)
Key Assumptions for Pension Cost		
Discount Rate		6.00%
Long-Term Rate of Return on Assets		9.00%
Salary Increases		3.50%
Mortality Rates		RP2000

FirstEnergy Corporation
FirstEnergy Corporation Pension Plan
2007 FAS 87 Expense by Operating Company

	FirstEnergy Services	Ohio Edison	Toledo Edison	Cleveland Electric
Net Periodic Pension Cost				
Service Cost	$ 18,242,000	$ 6,114,000	$ 2,498,000	$ 5,965,000
Interest Cost	63,719,000	37,744,000	8,901,000	23,145,000
Expected Return on Assets	(100,544,000)	(63,105,000)	(13,731,000)	(35,779,000)
Amortization of Unrecognized:				
Transition (Asset) Obligation	0	0	0	0
Prior Service Costs	1,409,000	2,794,000	577,000	1,455,000
Cumulative Net (Gain) Loss	6,350,000	3,713,000	1,642,000	6,451,000
Net Periodic Pension Cost	$ (10,824,000)	$ (12,740,000)	$ (113,000)	$ 1,237,000
FAS 88 Expense	0	0	0	0
Total Expense	$ (10,824,000)	$ (12,740,000)	$ (113,000)	$ 1,237,000
Key Assumptions for Pension Cost				
Discount Rate	6.00%	6.00%	6.00%	6.00%
Long-Term Rate of Return on Assets	9.00%	9.00%	9.00%	9.00%
Salary Increases	3.50%	3.50%	3.50%	3.50%
Mortality Rates	RP2000	RP2000	RP2000	RP2000

FirstEnergy Corporation
FirstEnergy Corporation Pension Plan
2008 FAS 87 Expense by Operating Company

	FirstEnergy Services	Ohio Edison	Toledo Edison	Cleveland Electric
Net Periodic Pension Cost				
Service Cost	$ 19,337,000	$ 6,481,000	$ 2,648,000	$ 6,323,000
Interest Cost	66,217,000	38,376,000	9,200,000	23,888,000
Expected Return on Assets	(105,275,000)	(65,316,000)	(14,269,000)	(37,143,000)
Amortization of Unrecognized:				
Transition (Asset) Obligation	0	0	0	0
Prior Service Costs	1,409,000	2,794,000	577,000	1,455,000
Cumulative Net (Gain) Loss	3,738,000	3,435,000	1,550,000	8,146,000
Net Periodic Pension Cost	$ (14,574,000)	$ (14,230,000)	$ (294,000)	$ 2,669,000
FAS 88 Expense	0	0	0	0
Total Expense	$ (14,574,000)	$ (14,230,000)	$ (294,000)	$ 2,669,000
Key Assumptions for Pension Cost				
Discount Rate	6.00%	6.00%	6.00%	6.00%
Long-Term Rate of Return on Assets	9.00%	9.00%	9.00%	9.00%
Salary Increases	3.50%	3.50%	3.50%	3.50%
Mortality Rates	RP2000	RP2000	RP2000	RP2000

Case No. 07-551-EL-AIR
Pension Expense by Operating Company
2007 Budget

	2007 Budget - Source: Hewitt [1]				2007 Budget - Reconciliation Amounts				2007 Budget - As Budgeted			
	FirstEnergy Services	Ohio Edison	Toledo Edison	Cleveland Electric	FirstEnergy Services	Ohio Edison	Toledo Edison	Cleveland Electric	FirstEnergy Services	Ohio Edison	Toledo Edison	Cleveland Electric
Net Periodic Pension Cost												
Service Cost	$18,242,000	$6,114,000	$2,498,000	$5,965,000	$0	$0	$0	$0	$18,242,000	$6,114,000	$2,498,000	$5,965,000
Interest Cost	63,358,000	38,082,000	8,897,000	23,137,000	0	0	0	0	63,358,000	38,082,000	8,897,000	23,137,000
Expected Return on Assets	(99,608,000)	(63,750,000)	(13,418,000)	(34,926,000)	0	0	0	0	(99,608,000)	(63,750,000)	(13,418,000)	(34,926,000)
Amortization of Unrecognized:												
Prior Service Costs	1,392,000	2,833,000	584,000	1,473,000	(2,000)	(3,000)	0	(2,000)	1,390,000	2,830,000	584,000	1,471,000
Cumulative Net (Gain) Loss	9,055,000	5,361,000	2,072,000	8,176,000	0	0	0	0	9,055,000	5,361,000	2,072,000	8,176,000
Net Periodic Pension Cost	($7,561,000)	($11,360,000)	$633,000	$3,825,000	($2,000)	($3,000)	$0	($2,000)	($7,563,000)	($11,363,000)	$633,000	$3,823,000

[1] Please see "OEG Set 1 - 7_Attachment 1.xls."

OEG – SET 1
Witness: Kalata

Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Increase Rates for Distribution Service, Modify Certain Accounting Practices and for Tariff Approvals

RESPONSES TO DATA REQUESTS

OEG – SET 1 Question #8	Refer to page 8 lines 2-4 of Mr. Kalata's Direct Testimony. Please explain why the Companies' use of only the service cost component of the pension expense "appropriately ignores the funded status of the plan."
Response:	See response to OEG – Set 1, Question #6.

OEG – SET 1
Witness: Kalata

Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Increase Rates for Distribution Service, Modify Certain Accounting Practices and for Tariff Approvals

RESPONSES TO DATA REQUESTS

OEG – SET 1 Question #9 Refer to Schedule C-3.6 and WPC-3.6a. Please explain why the Companies propose to use only the service cost component of OPEB expense in the revenue requirement. Please cite all authorities, including prior PUCO Orders, if any, that the Companies rely on for using only the service cost component of OPEB expense in the revenue requirement.

Response: Similar to the Companies' test-year claim for pension expense, the OPEB expense claim is based on the actuarial-determined service cost component under SFAS No. 106. The service cost component represents the actual present value of benefits accrued under the OPEB benefit formula for services rendered during the test year. Inclusion of the service cost component in rates provides for recovery of the current cost of benefits earned by plan participants during the test year. This method provides the most reasonable long-term method of rate case expense recognition attributable to OPEBs.

The Companies object to the request for the authorities on which they rely for their position in this proceeding. The information is confidential attorney work product and is therefore not discoverable.

OEG – SET 1
Witness: Kalata

Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Increase Rates for Distribution Service, Modify Certain Accounting Practices and for Tariff Approvals

RESPONSES TO DATA REQUESTS

OEG – SET 1 Question #10 Refer to page 8 lines 2-4 of Mr. Kalata's Direct Testimony. Please explain why the Companies' use of only the service cost component of the OPEB expense "appropriately ignores the funded status of the plan."

Response: The service cost component represents the actual present value of benefits accrued under the OPEB plan benefit formula for services rendered during the test year. Inclusion of the service cost component in rates provides for recovery of the current cost of benefits earned by plan participants during the test year. Recognition of the service cost component for rates ignores the actual timing of cash contributions to the plan and the consequent investment returns, which tend to be impacted based upon the timing of such contributions and market conditions. Any excess or shortfall related to the expected return on plan assets are not included because their inclusion would artificially reduce or increase total costs and result in the recovery of more or less than the actual normal cost of service. Using the service cost component of the OPEB expense in the revenue requirement ignores investment returns on the invested funds and focuses on the actual costs and benefits to participants each year.

EXHIBIT ____(LK-9)

OEG – SET 1
Witness: Kalata

Case No. 07-551-EL-AIR, Case No. 07-552-EL-ATA, Case No. 07-553-EL-AAM, Case No. 07-554-EL-UNC
Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Increase Rates for Distribution Service, Modify Certain Accounting Practices and for Tariff Approvals

RESPONSES TO DATA REQUESTS

OEG – SET 1 Question #20

a. Please provide the amount of incentive compensation expense by program included in each Company's revenue requirement, including, but not limited to, executive bonuses and stock options, regardless of whether such costs were incurred directly by the Companies or charged to the Companies from the service company affiliate.

b. Please provide a copy of each incentive compensation program for which the costs are included in the Companies' claimed revenue requirement.

c. Please provide the assumptions and computations of the test year incentive compensation expense for each incentive compensation program for which the costs are included in the Companies' claimed revenue requirement.

Response:

a. Certain employees of the Companies and FirstEnergy Service Company are eligible for short-term and/or long-term incentive compensation. Please see below for the amounts of each of these incentive compensation programs that are included in the Companies' respective revenue requirements:

Company	Short-Term	Long-Term	Total *
CEI	$5,502,412	$4,622,679	$10,125,091
OE	$2,711,095	$5,077,858	$7,788,953
TE	$2,740,305	$2,218,013	$4,958,318

* Includes direct company costs and costs assessed from FirstEnergy Service Company.

b. FirstEnergy views the requested information related to its incentive compensation programs as confidential and will make the information available only upon proper execution of a mutually agreeable non-disclosure agreement.

c. Test year short-term incentive compensation expense is based on projected base salaries, including estimated wage increases, and assumes that incentive compensation will be paid out at target levels, as opposed to threshold or maximum levels, as outlined in Attachment 1. Test year long-term incentive compensation is based primarily on assumptions related to the performance of FirstEnergy's stock.

EXHIBIT ____(LK-10)

DOCKET NO. 22344

GENERIC ISSUES ASSOCIATED WITH	§	**PUBLIC UTILITY COMMISSION**
APPLICATIONS FOR APPROVAL OF	§	
UNBUNDLED COST OF SERVICE	§	
RATE PURSUANT TO PURA § 39.201	§	
AND PUBLIC UTILITY COMMISSION	§	
SUBSTANTIVE RULE § 25.344	§	**OF TEXAS**

RECEIVED
00 DEC 22 AM 11:55
FILING CLERK

ORDER NO. 42
INTERIM ORDER ESTABLISHING
RETURN ON EQUITY AND CAPITAL STRUCTURE

Based upon the evidence, briefs, and arguments of the parties, the Commission adopts a generic return on equity (ROE) of 11.25% and a generic capital structure of 60% debt and 40% equity for the transmission and distribution utilities (TDUs) in Texas for ratemaking purposes, starting in 2002. As the Commission noted in the preliminary orders in the utility-specific unbundled cost of service (UCOS) cases,[1] the resolution of an issue in this generic proceeding is to be applied in each utility's UCOS proceeding.

I. Procedural History

The generic issue, posed in Order No. 3, "Should the Commission adopt uniform or generic standards for incentive- or performance-based rates, the appropriate capital

---

[1] *Application of Sharyland Utilities, L.P., for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and P.U.C. Subst. R. 25.344*, Docket No. 22348 (pending); *Application of Texas-New Mexico Power Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and P.U.C. Subst. R. 25.344*, Docket No. 22349 (pending); *Application of TXU Electric Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and P.U.C. Subst. R. 25.344*, Docket No. 22350 (pending); *Application of Southwestern Public Service Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and P.U.C. Subst. R. 25.344*, Docket No. 22351 (pending); *Application of Central Power & Light Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and P.U.C. Subst. R. 25.344*, Docket No. 22352 (pending); *Application of Southwestern Electric Power Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and P.U.C. Subst. R. 25.344*, Docket No. 22353 (pending); *Application of West Texas Utilities Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and P.U.C. Subst. R. 25.344*, Docket No. 22354 (pending); *Application of Reliant Energy HL&P for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and P.U.C. Subst. R. 25.344*, Docket No. 22355 (pending); *Application of Entergy Gulf States, Inc., for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and P.U.C. Subst. R. 25.344*, Docket No. 22356 (pending); hereinafter, individual UCOS cases.

structure of a TDU, and for authorizing a return on equity of more than 200 basis points above the utility's average yield on bonds" was first addressed by the Commission in Order No. 17.[2] After considering the parties' briefs, the Commission entered Order No. 17 which, recognizing the inter-relatedness of these matters, discussed the relatively low-risk nature of transmission and distribution business, the introduction of a potentially greater risk if an incentives program were adopted, and the reflection of such a program in a company's ROE.

Additionally, in Order No. 17, the Commission acknowledged a trend toward more uniform capital structures for the utilities, noting that most utilities proposed a 50/50 split between debt and equity in their UCOS filings. The Commission concluded that a 60/40 debt to equity ratio was an appropriate policy goal, but recognized that some utilities may face circumstances that would make the 60/40 ratio unworkable. The Commission found that the determination of the applicable ratio for each company would be decided on a case-by-case basis in the individual UCOS cases.

At the September 7, 2000 open meeting, the Commission determined that, should unanimous agreement on a consensus incentive plan not be reached, the Commission would hear the ROE and capital structure issues in this generic proceeding.[3] At the Open Meeting on September 20, 2000, in addition to ruling against the use of the incentives plan, the Commission decided to conduct the analysis of capital structure in this generic proceeding.[4] The capital structure analysis, premised on the 60/40 debt to equity ratio goal stated in Order No. 17, would determine whether a single, generic capital structure should be adopted for application to all TDUs in Texas, or whether exceptions would be created on a company-by-company basis.

---

[2] In Order No. 17, Ruling on Category B Issues, issued on July 24, 2000, the Commission found that developing a methodology to determine an appropriate ROE should be addressed in the generic docket. The Commission concluded that the determination of whether the 200 basis points above a utility's average yield on bonds is an appropriate number is directly tied to the development of a standard incentives program. In that order, the Commission directed the parties to work together to develop a consensus document outlining an incentives program. The Commission determined that, once the parties developed a consensus regarding the incentives program and reported it back to the Commission, the ROE issue – whether it should be lower or higher than the 200 basis points – would be addressed and resolved in this generic docket.

[3] Open Meeting Tr. at 112-113 (Sept. 7, 2000).

[4] Open Meeting Tr. at 12-16, 20, 22, and 203-204.

Subsequently, the Commission issued Order No. 28,[5] in which it found that a generic ROE is an appropriate issue to be determined in a hearing in this docket. In reaching this conclusion, the Commission considered the basic underlying similarities of the transmission and distribution utilities, including the level of regulatory oversight and comparable levels of risk. The Commission stated that it would consider the ROE issue together with the issue of capital structure in this proceeding, and, if necessary, would determine a specific ROE for each utility, except Sharyland Utilities. A hearing date of November 6, 2000, was scheduled for the "ROE/Capital Structure" phase of this proceeding.

Direct testimony regarding the capital structure issue was identified by the utilities in their initial UCOS filings, and filed in this generic proceeding on September 27, 2000. Utilities' direct testimony on the ROE issue was also filed on September 27, 2000. On October 19, 2000, a non-unanimous stipulation and agreement (NUS)[6] was filed by certain non-utility parties. Intervenor and Commission Staff testimony on both issues was filed on October 20, 2000.

On November 6, 2000, the Commission heard evidence in connection with the establishment of ROE rates and capital structure ratios for use in the utilities' individual UCOS cases currently pending at the State Office of Administrative Hearings (SOAH). Initial and reply post-hearing briefs were filed by the parties on November 22, 2000, and December 4, 2000, respectively. The Commission considered this matter in the open meeting on December 13, 2000.

[5] In Order No. 28, Interim Order Ruling on Incentive Plan and ROE Issues, issued on September 22, 2000, the Commission addressed the failure of the parties to reach a consensus on an incentives plan, concluded that a generic incentives plan is not appropriate at this time, and determined that performance-based ratemaking plans proposed by some utilities in their original unbundled cost of service (UCOS) filings will not be considered in setting ROE in this docket or in the individual UCOS cases.

[6] The NUS was signed by the following parties: Commission Staff, Cities served by TXU, Reliant, CPL, WTU, TNMP (Cities), City of Houston, TIEC, State of Texas, New Energy, Enron Energy Services, Texas Industries (TXI), Dallas-Fort Worth Hospital Council and Coalition of Independent Colleges and Universities (DFWHC and CICU), Consumer Owned Power Systems (COPS), City Public Service of San Antonio (CPS), South Texas Electric Cooperative, Tex-La, Northeast Texas Electric Cooperative, Sam Rayburn G&T Electric Cooperative, and Brazos.

II. Discussion

A. Return on Equity

The NUS signatories proposed that a reasonable ROE is 10.75%, assuming a 60/40 debt to equity ratio for capital structure. They based their proposal on the proposition that PURA[7] establishes pure TDUs that will be subject to less risk than integrated utilities with generation and fuel supply responsibilities. The NUS signatories pointed to evidence showing that major bond rating agencies, which assess companies' risk, accept this proposition. The NUS signatories presented expert witnesses who recognized that risks would be diminished because the unbundled TDUs will not own generation or be responsible for fuel procurement, have high asset concentration, or be subject to certain regulatory risks. In addition, TDUs will be monopoly providers of an essential service in their service areas and will have rates set on a cost-of-service basis. The NUS witnesses utilized a constant growth discounted cash flow (DCF) analysis and, in some instances, a capital asset pricing model (CAPM) analysis, as a check on the reasonableness of their results.

The NUS signatories stated that the investor-owned utilities (IOU) made no effort to determine a reasonable ROE for a pure TDU, but instead, relied on the untenable proposition that the newly formed TDUs will have the same, or even greater, risk than integrated utilities, particularly during the transition period. They also stated that the NUS-proposed ROE is a near perfect compromise between those arguing for a 10.1% ROE and the IOUs seeking an 11.5% ROE. Moreover, the signatories argued that the NUS proposal reasonably compensates the TDUs for any potential increase in the financial risk because of the more highly leveraged capital structure, and permits the newly formed companies to maintain financial integrity and the ability to attract capital at reasonable rates. They based this conclusion on the evidence that shows cash flow interest coverage ratios comparing favorably with coverage guidelines set forth by the bond rating agencies of 2.0% to 3.25% for TDUs with A and BBB ratings.

[7] Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§ 11.001-64.158 (Vernon 2000) (PURA).

The Office of Public Utility Counsel (OPUC) and Cities served by Entergy (EGSI Cities) proposed that a reasonable ROE is 10.125%, assuming a 60/40 debt to equity ratio for capital structure. They argued that the utilities' recommendation of an 11.5% ROE, with a 50/50 debt to equity ratio, does not adequately recognize the significantly reduced business risks for the stand-alone wires companies, as well as the impacts from major risk-reducing events, such as TDUs' loss of both generation-related and other, commodity-related, risks.

More specifically, OPUC/EGSI Cities contended that the Commission's adoption of a Transmission Cost Recovery Factor (TCRF) eliminates the IOUs' perceived risk of potential revenue instability caused by tariff features. Furthermore, they stated that the current integrated utility capital structure is not justified for the new TDUs, given the new companies' reduced operational risk as compared to the integrated utilities' risk, including the commodity risk. OPUC/EGSI Cities claimed that firms with lower business risk can be capitalized with less equity capital and more debt than those with higher business risk because they their income streams and cash flows are more predictable. They also stated that the utilities' witnesses overstated the nature and extent of the new TDUs' business risk because they did not consider the impact of various potential risk-reducing events.

OPUC/EGSI Cities noted that the following risk-reducing events are likely or certain to occur for the TDUs: (1) they will retain their monopoly status and continue to be regulated by the Commission on a cost-of-service basis; (2) cash flows will remain predictable due to known ratemaking standards; (3) they will shed risks associated with the production side, including changing fuel prices and generation demands; (4) their asset concentration will be reduced and thus be subject to lower risk than that of the vertically-integrated utilities; and (5) they will not face marketing and sales risks.

With regard to the NUS, OPUC/EGSI Cities argued that the proposed ROE is too high and will allow TDUs to earn an excessive return, thus resulting in unnecessarily high rates. OPUC/EGSI Cities also argued that their proposal of 10.125% ROE with a

60/40 debt to equity ratio for capital structure is sufficient to allow the TDUs to attract capital at reasonable rates, yet minimizes overall costs to ratepayers.

The IOUs proposed that a reasonable ROE is 11.5%, or greater, assuming a 50/50 to 55/45 debt to equity ratio for capital structure. They argued that the NUS signals a belief that a BBB, or lower, bond rating is acceptable, and that the long-term financial viability of these companies is less important than the short-term policy goal of creating headroom. The IOUs noted that their own proposal is consistent with the risk premium analysis presented by a Commission Staff witness, Martha Hinkle. Furthermore, they argued that the NUS does not correctly determine the riskiness of the new TDUs because it does not consider what other factors might affect TDUs beyond the loss of generation. According to the IOUs, such factors include the uncertainty inherent in restructuring and new risks in the restructured environment, such as substantial construction outlays, reliability mandates, credit risks, nuclear decommissioning cost recovery, revenue instability, and regulatory risk.

The IOUs also argued that fundamental principles of finance require that the substantial increase in debt leverage proposed by the NUS yield a corresponding increase in the ROE, as well as corresponding increase in the cost of debt. The IOUs pointed out that from the capital market's perspective, requirements to build a large amount of new transmission facilities to interconnect new power plants and eliminate transmission constraints and an increase in investment to meet substantially higher reliability standards create additional risk to the TDUs. They claimed that the NUS seriously understated the TDUs' cost of capital and would send a harmful signal to the capital markets.

The IOUs also contended that in establishing the appropriate ROE levels and capital structures, the Commission should consider both the various business risks of the TDUs and the implicit relationship between the ROE and the financial risk associated with a specific capital structure.

B. Capital Structure

The NUS signatories adopted a debt/equity ratio for capital structure of 60/40, and stated that it was appropriate because it reflected the Commission's articulated capital structure policy goal. Additionally, the NUS signatories affirmed that the 60/40 debt to equity ratio recognized that the TDUs would face substantially lower risks than those currently faced by the integrated utilities. These reduced risks include business, generation, fuel, asset concentration, cash flow variability, regulatory, and collection risks. The NUS signatories contended that the reduction in the various risks would allow for an increase in debt leverage for the newly formed companies.

The NUS signatories also argued that the NUS represents a settlement supported by numerous parties, who performed proper analyses of the relevant proxy groups. Further, they stated that the inclusion of preferred securities in the calculation of the proposed 60% debt has the practical effect of increasing debt coverage ratios over what they otherwise would be, since the rating agencies exclude interest payments on preferred securities when calculating debt leverage. This means that a 60% debt level will not necessarily result in a downgrading of a TDU's credit rating. The NUS signatories affirmed their belief that the NUS equitably balances interests to allow the TDUs to attract capital, while providing revenue savings to ratepayers. Finally, the NUS signatories argued that the Commission should not establish capital structure based on a worst-case scenario, as advocated by the IOUs.

OPUC/EGSI Cities supported the debt/equity ratio of 60/40, as set forth in the NUS. They stated that the NUS capital structure appropriately reflects the lower operating risks that TDUs will face starting in 2002. Further, OPUC/EGSI Cities affirmed their belief that there are no significant transition risks associated with operating an unbundled TDU.

OPUC/EGSI Cities argued that the rating agencies do not require utilities to maintain the current capital structures in order to maintain current credit ratings. Instead, they asserted that rating agencies would look at a variety of factors when determining the appropriate rating. They also asserted that adopting the IOU's proposed capital structure would have a significant revenue requirement impact.

OPUC/EGSI Cities stated that the IOUs' claims that they need a lower debt ratio to continue operations during the times of financial adversity are unfounded, since the risk of such adversity already exists today for the integrated utility. Finally, OPUC/EGSI Cities asserted that the IOUs failed to address evidence that the IOUs currently have a 40% equity ratio. If this were the case and risks were reduced, ratings should not be affected.

For the purposes of setting a generic capital structure, the IOUs requested a ratio consisting of 50-55% debt, which they believe corresponds to an ROE of not less than 11.5%. This proposal was based on the assumption that the capital structure recognizes that a higher debt ratio should give rise to a higher cost of equity. Additionally, the IOUs requested that the Commission make changes to the capital structure in a gradual, incremental manner.

The IOUs did not agree that the TDUs would face substantially lower risk than existing integrated utilities; on the contrary, they argued that some risks could increase. They stated that their proposed capital structure is consistent with a risk premium analysis for the appropriate proxy group, which IOUs believe should be the local gas distribution companies. The IOUs asserted that this capital structure will allow the TDUs to meet the financial challenges presented by a competitive market and that it would support a single A bond rating. They also asserted that the rate filing package presumption of a 200 basis point risk premium as appropriate did not represent the final determination by the Commission. The IOUs maintained that the capital structure should not be determined based solely on a desire to reduce the revenue requirement.

III. Commission Conclusion

In approaching the issues of the appropriate ROE and capital structure, the Commission notes two underlying considerations that served as a starting point in the decision-making process. First, these decisions are made for ratemaking purposes for the newly unbundled TDUs during the transition period; and, second, the decisions are based on the close correlation between the ROE and capital structure.

The factors the Commission considered when determining an appropriate and reasonable ROE for the unbundled TDUs in Texas include: (1) the levels of business and financial risk; (2) the Commission's decisions in the rate design phase of this case; (3) the need to maintain reasonable rates; (4) the need for new transmission capacity; (5) the maintenance of adequate reliability standards; and (6) the companies' ability to attract new capital.

The Commission reviewed analyses of various proxy groups, including generation-divested, integrated, and water utilities and local gas distribution companies, for indications of risk levels and market concerns. The Commission finds that, while the generation-divested utilities most closely resembled the functions of the unbundled TDUs, significant differences in market restructuring in Texas and the size of the sample group do not allow for generalizations. The Commission also finds that the other sample groups provided useful information and need to be considered.

Based on these reviews, the Commission concludes there is strong evidence to support the presumption that, relative to the existing market structure, unbundled TDUs in the Electric Reliability Council of Texas (ERCOT) will be exposed to less risk.[8] The following observations support the assertion that the Texas market is significantly different from other jurisdictions and should result in lower risk for the TDUs: (1) complete separation of generation and transmission and distribution functions, thus virtual elimination of commodity risk; (2) a requirement on retail electric providers (REPs) to be the point of sales for retail customers; (3) Commission-approved substantive rules related to registration and financial requirements to minimize a possibility of a REP default on payments for contracted services;[9] and (4) P.U.C. SUBST. R. 25.193 to ensure

[8] Direct Testimony of Martha Hinkle, pp. 8 -9, 17, and 19, and NUS Joint Reply Brief, pp. 3-10.

[9] P.U.C. SUBST. R. 25.107, relating to Certification of Retail Electric Providers (REPs), and P.U.C. SUBST. R. 25.108, relating to Financial Standards for Retail Electric Providers Regarding the Billing and Collection of Transition Charges.

speedy recovery of transmission expenditures related to expansion of the transmission network. Therefore, the Commission concludes these favorable market and regulatory conditions in Texas should result in a lower business risk to Texas TDUs.

Additionally, in its consideration of an appropriate and reasonable ROE, the Commission reviewed a range of methods and models, as proposed by the parties: discounted cash flow (DCF), multi-stage DCF, capital asset pricing model (CAPM), and risk premium method. The Commission finds that the multi-stage DCF analysis as proposed by the IOUs does not accurately capture the lower business risk for Texas TDUs.[10]

In its determination of an appropriate ROE, the Commission considered the NUS recommendation of 10.75% as a reasonable starting point.[11] It also lies in the middle of the ranges of reasonable ROE admitted into evidence. Further review of OPUC/EGSI Cities CAPM analysis indicated that the NUS ROE is compatible with a 60% debt in the capital structure.[12] The Commission, however, provides for an upward adjustments to the ROE of 0.5% to account for: (1) the Commission decision in the rate design phase of this proceeding;[13] (2) potential rating uncertainty due to higher debt, based on the adoption of 60% debt and 40% equity for capital structure in this proceeding; and (3) a risk premium recalculation as indicated in a Commission Staff witness' errata testimony.[14] Accordingly, the Commission approves an ROE of 11.25% for the Texas unbundled TDUs, starting in 2002.

With regard to the issue of capital structure, the Commission recognizes that the ultimate determination of the appropriate relationship between the level of debt and

---

[10] Direct Testimony of D.Tietjen, pp. 8-10.

[11] Direct Testimony of D.Tietjen and M. Hinkle; *see also* NUS Initial Brief, pp. 12-19.

[12] IOU Reply Brief, Exhibit C; *see* also Direct Testimony of Hill, Schedule 7.

[13] The Commission adopted a Transmission Cost Recovery Factor, which may increase risk for the distribution company. Also adopted was an 80% ratchet for the distribution company, which may result in more streamlined cash flow, however, the adopted ratchet was the lowest one proposed.

[14] Staff Exhibit 1B, Errata to Martha Hinkle's Direct Testimony; *see also* November 6, 2000 Hearing Transcript at 1309-11.

equity and the corresponding ROE is not an exact science. As a general proposition, however, the Commission finds that an increase in debt should result in an increase in ROE unless offset by lower business risk.

Both NUS and OPUC/EGSI Cities proposed debt to equity ratio of 60/40. These parties presented substantial evidence showing that the unbundled TDUs would not be adversely affected by higher levels of debt, either in terms of adequate cash flows or market perception. The Commission agrees with these parties that any increase in the financial risk due to the higher debt leverage would be offset by the lower business risk to the TDUs. The Commission is not persuaded by the IOUs' arguments that greater debt leverage would have a detrimental impact on the TDUs. The Commission finds that the TDUs are able to carry a higher level of debt and still achieve a favourable credit rating, which will allow capital to be raised at acceptable rates.

Therefore, the Commission finds that a capital structure of 60/40 debt to equity ratio is reasonable and that it will allow TDUs to attract sufficient capital at reasonable rates, while minimizing costs to the ratepayers. The Commission also finds that any increase in the financial risk due to the higher debt leverage is offset by the lower business risk faced by the TDUs. The Commission, therefore, adopts a 60% debt and 40% equity ratio as the capital structure for ratemaking purposes for Texas TDUs.[15]

---

[15] NUS Initial Brief, pp. 4-11.

SIGNED AT AUSTIN, TEXAS the 18th day of December 2000.

PUBLIC UTILITY COMMISSION OF TEXAS

PAT WOOD, III, CHAIRMAN

JUDY WALSH, COMMISSIONER

BRETT A. PERLMAN, COMMISSIONER

q:\opd\orders\interim\22000\22344-42-gen ROE capS.doc