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[Company Exhibit 65]

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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 Approval of a New Rider and Revision of an Existing Rider.	Case No. 10-176-EL-ATA

REBUTTAL TESTIMONY OF

WILLIAM R. RIDMANN

ON BEHALF OF

OHIO EDISON COMPANY
THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
THE TOLEDO EDISON COMPANY

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I. INTRODUCTION

1 **Q1. PLEASE INTRODUCE YOURSELF.**

2 **A1.** My name is William R. Ridmann. I have testified previously in this case.

3 **Q2. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

4 **A2.** In this rebuttal testimony, I address three issues. First, I respond to certain
5 exhibits that have been submitted initially as part of the public hearing phase of
6 this case and subsequently admitted into evidence at the evidentiary hearing by
7 the intervenors in this matter. Second, I address certain testimony provided by
8 former employees of the Companies. Third, I show that certain statements,
9 assumptions and recommendations offered or made by OCC witness Anthony
10 Yankel are wrong.

11 II. DOCUMENTS OFFERED AT THE PUBLIC HEARING OR BY 12 INTERVENORS AT THE EVIDENTIARY HEARING

13 **Q3. CERTAIN DOCUMENTS HAVE BEEN OFFERED BY CUSTOMERS IN**
14 **THIS CASE AS "PROOF" THAT THE COMPANIES MADE PROMISES**
15 **REGARDING HOW LONG CERTAIN RATES, RATE SCHEDULES OR**
16 **DISCOUNTS WOULD LAST. LET'S ADDRESS SOME OF THEM.**
17 **HAVE YOU REVIEWED PUBLIC HEARING EXHIBIT STRONGSVILLE**
18 **EXH. 2 OFFERED INTO EVIDENCE BY OCC IN THIS PROCEEDING?**

19 **A3.** Yes. This document purports to be a letter, dated June 18, 1988, from Elio
20 Andreatta, a former OE employee, to Thomas Logan.

21 **Q4. WHAT IS YOUR RESPONSE TO THIS DOCUMENT?**

22 **A4.** No such letter was found in OE's records. Nor were their similar letters or form
23 of letters like this one. Further, the letter makes little sense and is clearly contrary

to OE's tariffs in existence at the time. The letter starts by saying that the rate is "experimental." The letter continues to define what an "experimental" rate would supposedly mean: "if Ohio Edison ever removes this rate from our files you would not be in jeopardy of forfeiting this rate." This is not, nor has it ever been, the definition of an "experimental" rate. Indeed, an "experimental" rate would mean exactly the opposite – that the Company is offering this rate, potentially on a temporary basis, to customers.

Moreover, the Companies would never (and could never) have a policy of telling a customer that they would never be "in jeopardy of forfeiting" a rate. OE's First Revised Sheet No. 4.1 contained OE's Standard Rules and Regulations in effect at the time the letter is dated. These rules were expressly incorporated in the Residential Space Heating tariff that was enclosed with the letter. Paragraph I(B) of the Rules and Regulations provided:

> The Company's Schedule of Rates and Regulations as herein contained may be terminated, amended, supplemented or otherwise changed from time to time only in accordance with the law and the rules promulgated thereunder by the Public Utilities Commission of Ohio. No agent, representative or employee of the Company has any right to modify or alter any provision of the Company's Schedule of Rates or the Standard Rules and Regulations.

Thus, rates could not be guaranteed forever and no employee could make such guarantee.

1 **Q5. IN THE KIRTLAND HEARINGS THERE WAS A DOCUMENT**
2 **POSTMARKED AUGUST 7, 1980 AND SIGNED BY RICHARD R.**
3 **GOULD. THIS DOCUMENT WAS MARKED AS CKAP EXH. 31**
4 **[PUBLIC HEARING EXHIBIT KIRTLAND EXH. 7]. ARE YOU**
5 **FAMILIAR WITH THIS DOCUMENT?**
6 **A5.** Yes. Based upon the second page of CKAP Exh. 31, it appears that this letter was
7 sent to a Mr. Jesse Willitts and would have been directed to a customer that was
8 taking residential service under the then-existing Space Heating discount section
9 of CEI's residential schedule.
10 **Q6. DOES THIS LETTER SHOW THAT CEI WAS PROMISING THAT THE**
11 **CUSTOMER WOULD GET A DISCOUNT FOR AS LONG AS THE**
12 **CUSTOMER STAYED AT THAT RESIDENCE?**
13 **A6.** No. The purpose of this letter was to inform electric heating customers that the
14 availability of the discount under the prior rate had been modified by a recent
15 PUCO order. Attachment WRR-A is the CEI residential rate schedule, effective
16 March 12, 1980, that was in effect prior to the recent PUCO Order. As seen from
17 this schedule (and specifically, the discount section), a discount under this
18 schedule was previously "available only for water heating installations existing on
19 November 28, 1973 and space heating installations existing on December 1,
20 1977."
21 Attachment WRR-B is a copy of the CEI residential schedule, effective
22 July 14, 1980, which is the rate schedule that went into effect as a result of the
23 recent PUCO Order. Under that schedule, the discount provision became only

1 "...available only for customers receiving service under these provisions on July
2 14, 1980." Thus, what changed on July 14, 1980 (when the next rate schedule
3 was issued) and what led to the sending of this letter was that the availability of
4 the discount provision was now going to be based on the *specific customer of*
5 *record* that was taking service as of that date. The availability of the discount was
6 no longer going to be based upon what date specific equipment was first installed
7 at the residence. Therefore, pursuant to this change, the existing customer was
8 being advised that if and when they moved out of the residence, the discount
9 provision would not be available to the next customer that moved into the
10 residence.

11 This letter was likely presented at the Kirtland public hearing and by
12 CKAP during the evidentiary hearing because of the following language: "Under
13 the new rate schedule there will be no change in the discount provisions until
14 there is a change in customer." The purpose of this sentence was to assure
15 existing customers receiving the letter that they were not presently losing the
16 availability of the discount provision at the time they were receiving the letter as
17 an outcome of the recent PUCO Order. This sentence specifically starts with the
18 phrase "under the new rate schedule." It does not imply that there may not be a
19 future new rate schedule. Indeed, the very fact that the availability had just
20 changed a mere four months since the last rate schedule was issued made obvious
21 that new rate schedules were modified quite frequently. Certainly, a customer
22 would have been aware of the fact that the rates changed as soon as they received
23 their first bill after receipt of this letter. On July 14, 1980 CEI implemented a rate

1 increase in addition to changing the availability of the discount provision of the
2 space heating/water heating discount. In sum, this letter must be read in context.
3 In this light, the letter does not in any way state that a specific customer would
4 receive the discount provision forever or for any specified period of time. The
5 letter was simply trying to reassure customers that they were not losing a discount
6 as a result of the recent rate order and informing them that if they sold their house,
7 the purchaser would not get the discount described in the letter.

8 **Q7. AFTER JULY 14, 1980, WHAT HAPPENED TO BILLS RENDERED TO**
9 **RESIDENTIAL CUSTOMERS DURING THE WINTER BILLING**
10 **PERIOD?**

11 A7. Even though all CEI residential customers saw increases to rates greater than ten
12 percent, the electric space heating customers saw the highest winter percentage
13 increases. The cent/kWh discount that qualifying space heating customers
14 received, as compared to the standard residential rate, did not increase. Therefore,
15 the relationship in pricing between electric heating customers and standard
16 residential customers changed over time, and this is one example. I have
17 tabulated the percent increases, by rate block, that CEI customers experienced
18 during the winter period following the July 14, 1980 rate increase.

Comparison of net base rates paid by residential standard and residential space heating customers

Customers	KWh Blocking	Winter Rates 3/5/1980	7/14/1980	Increase
All	1st 300	3.44	3.95	15%
Standard	301-600	3.44	3.95	15%
discount	301-600	1.00	1.00	
Space Heating	301-600	2.44	2.95	21%
Standard	601-1,000	3.44	3.95	15%
discount	601-1,000	0.60	0.60	
Space Heating	601-1,000	2.84	3.35	18%
Standard	All excess	1.984	2.20	11%
discount	All excess	0.600	0.60	
Space Heating	All excess	1.384	1.60	16%

Q8. ANOTHER DOCUMENT THAT HAS BEEN DESCRIBED AND OFFERED IN THIS CASE IS AN OPTIONAL RATE CARD [PUBLIC HEARING EXHIBIT SANDUSKY EXH. A]. IT HAS BEEN NOTED BY SOME CUSTOMERS THAT THE RATE CARD DOES NOT INCLUDE A SPECIFIC EXPIRATION DATE. HOW DO YOU RESPOND?

A8. Although it's true that these cards do not have a specific expiration date appearing specifically on the card itself, they also do not indicate that the rate is to continue forever. The cards do refer to the specific rate schedule under which the customer was choosing to receive service. In fact, the purpose of the cards was to record the customer's application to receive a non-standard rate. The reference to a specific rate necessarily incorporated all of the terms and conditions of that rate schedule, which, in turn, incorporated the terms and conditions of the Standard Rules and Regulations. As noted, those rules and regulations included that all

1 rates were subject to change by the Commission. Thus, the proper reading of
2 these rate cards is that they are subject to Commission approved rules and electric
3 service regulations and that such rates are (and were) subject to change by the
4 Commission. Customers seeking to understand their specific terms of service
5 could request the same from OE or from the Commission.

6 **Q9. ANOTHER TYPE OF DOCUMENT DISCUSSED AT THE PUBLIC**
7 **HEARINGS WAS A LETTER OR BROCHURE THAT INCLUDED A**
8 **COMPARISON OF THE COST OF USING ELECTRICITY OR GAS.**
9 **[PUBLIC HEARING EXHIBIT STRONGSVILLE EXH. 1.] SOME HAVE**
10 **POINTED OUT THAT THIS DOCUMENT DOES NOT NOTE THAT**
11 **THERE IS ANY EXPIRATION DATE FOR THE ELECTRIC RATES OR**
12 **THAT THE RATES USED TO CALCULATE THE COST**
13 **COMPARISONS WERE SUBJECT TO CHANGE. DO YOU BELIEVE**
14 **THAT SUCH DISCLAIMERS WERE NECESSARY?**

15 **A9.** No. While it is true that the Companies, from time to time, provided comparisons
16 of the cost of electric heating and heating with natural gas, these comparisons
17 were based on then current rates. More often than not, these comparisons
18 specifically stated this fact. For example, Company Ex. 53, which is a
19 comparison done for a Bob Schmitt Homes customer in December 1990,
20 specifically states, "These rates schedules are subject to change at any time as
21 new rates are fixed by the various regulatory authorities under which the company
22 operates." Even where the comparisons did not specifically mention that they
23 were based on current rates, a reasonable interpretation of the comparison would

have included an inference that the rates – for both electricity and gas – were subject to change. Most customers were aware that rates could change frequently because the Companies' rates *did* change frequently. In the 1980's, when many of these documents were written and distributed, OE had nine rate increase cases in nine years. TE also had nine rate increase cases over this same time period and CEI had eight. As shown in Attachments WRR-3 and WRR-5 to my prefiled direct testimony, the rates paid by electric heating customers changed often. As demonstrated by Attachment WRR-6 in my prefiled direct testimony, gas rates also were changing often. Thus, it was unnecessary for the Companies to remind customers of the fact that gas or electric rates could change.

III. PUBLIC HEARING TESTIMONY OF FORMER COMPANY EMPLOYEES

Q10. THREE OF THE FORMER EMPLOYEES OF THE COMPANIES WHO TESTIFIED AT THE PUBLIC HEARING WERE TERYL BISHOP, CHESTER KARCHEFSKY, AND JAMES EHLINGER. COULD YOU DESCRIBE THE CIRCUMSTANCES OF THESE FORMER EMPLOYEES' SEPARATION FROM THE COMPANIES?

A10. Yes. Mr. Bishop was an employee of Ohio Edison, then FirstEnergy Services Corp. and then FirstEnergy Solutions. According to company records (specifically personnel records kept in the ordinary course of business), he was terminated from his employment from FirstEnergy Solutions in September 2002.

Mr. Karchefsky worked for CEI, Centerior, FirstEnergy Services Corp. and FirstEnergy Solutions. According to company records (specifically personnel

1 records kept in the ordinary course of business), he was also terminated from
2 FirstEnergy Solutions in September 2002.
3 Mr. Ehlinger worked for Toledo Edison, FirstEnergy Services Corp., and
4 FirstEnergy Solutions Corp. According to company records (specifically
5 personnel records kept in the ordinary course of business), he was terminated
6 from FirstEnergy Solutions in April 2001.
7 **Q11. HAVE YOU READ THE COMMENTS MADE BY MR. BISHOP, MR.**
8 **KARCHEFSKY, AND MR. EHLINGER AT THE PUBLIC HEARINGS,**
9 **AND IF SO, DO THEIR COMMENTS CAUSE YOU TO CHANGE ANY**
10 **ASPECT OF YOUR DIRECT TESTIMONY?**
11 **A11.** I read those comments after I filed my direct testimony and their comments do not
12 cause me to change any of my direct testimony. Their testimonies contained
13 inaccuracies and misstatements of Company policy, and therefore should not be
14 relied upon by the Commission in rendering its decision in this proceeding.
15 **Q12. DO YOU HAVE ANY COMMENTS RESPONSIVE TO THE PUBLIC**
16 **HEARING TESTIMONY OFFERED BY TERYL BISHOP?**
17 **A12.** Yes. His public hearing testimony contains several errors. To begin, he stated
18 that it was OE's policy to grandfather rates whenever rates were changed. North
19 Ridgeville Tr., pp. 117-118. This is obviously incorrect. It was not OE's policy
20 to grandfather rates whenever rates were changed. If that was indeed OE's
21 policy, then every time there was a rate increase, OE could have not collected any
22 additional revenue until a customer moved from their home. To the contrary,
23 OE's policy was to change rates for all customers when the Commission ordered

1 changes to OE's rates. Whether a customer would or would not receive an
2 increase in rates had nothing to do with whether a customer moved.
3 On occasion, OE did seek Commission approval to not permit any new
4 customers to take service under a particular tariff schedule, but only if certain
5 conditions were met. For example, following the Rate Certainty Plan, customers
6 on electric heating rates were permitted to remain on that rate as long they
7 continued to reside in the home, maintain the required equipment in the home,
8 and ***as long as the rate remained available***. (To see actual bill inserts containing
9 this language, please refer to Attachment WRR-1 to my direct testimony.) But it
10 was not OE's policy to tell customers that if the rate they were on ever changed
11 that they could remain on the old rate as long as they stayed in the same house.
12 **Q13. ARE THERE OTHER ERRORS CONTAINED IN MR. BISHOP'S PUBLIC**
13 **HEARING TESTIMONY?**
14 A13. Yes. Mr. Bishop also erroneously suggests that rate increases granted to the
15 Companies by the PUCO in previous cases were done "without any additional
16 expense to the Companies." North Ridgeville Tr., pp. 118-119. Mr. Bishop
17 appears to fundamentally misunderstand the ratemaking process. Mr. Bishop was
18 never part of the rate department of any of the Companies and thus lacks any in-
19 depth experience or expertise in how the Companies' rate increases took place.
20 The fact is that rate increases that went into effect during the winter period of
21 2009/2010 were authorized by the PUCO to permit the Companies to recover
22 their increased costs of providing service. While rates for electric heating
23 customers increased during that period, rates for standard residential rose as well.

1 The increase in rates for electric heating customers was not done in a vacuum, but
2 was designed to allow the Companies to at least partially recover their costs of
3 providing service to electric heating customers.

4 **Q14. WHY DO YOU SAY THE COMPANIES WERE ONLY PARTIALLY**
5 **RECOVERING THEIR COSTS TO SERVE ELECTRIC HEATING**
6 **CUSTOMERS?**

7 **A14.** All residential customers, including electric heating customers, are currently
8 charged for generation service and distribution service under tariffs approved by
9 the Commission. These charges represent the costs incurred by the Companies to
10 provide electric service to these customers. If a residential electric heating
11 customer pays less than the cost to provide electricity to that customer, then other
12 customers must make up the difference to cover the discount being provided to
13 the electric heating customer. Because starting in September 2009 electric
14 heating customers were receiving credits, they were not paying their full cost of
15 service. The discount they receive is paid for by other customers.

16 **Q15. DO YOU HAVE COMMENTS IN RESPONSE TO THE PUBLIC**
17 **HEARING TESTIMONY OF CHESTER KARCHEFSKY?**

18 **A15.** Yes. Mr. Karchefsky misstates what customers were told by the Companies
19 following the Rate Certainty Plan proceeding. Mr. Karchefsky states he was told
20 that he "would be grandfathered or saved from whatever rate structure would
21 come after that date." Kirtland Tr., pp. 37-38. This does not tell the whole story.
22 As can be seen from the bill insert that was sent to customers after that
23 proceeding, customers were advised that: "The term 'grandfathered' does not

1 mean forever. However, as long as the rate remains in effect and you remain in
2 the home using the qualifying equipment, you will receive the rate." See
3 Attachment WRR-1, p. 1 of my direct testimony. For CEI, the rate remained in
4 effect for distribution until April 30, 2009 and for generation until May 31, 2009.
5 **Q16. DO YOU AGREE WITH MR. KARCHEFSKY THAT STANDARD**
6 **CUSTOMERS DO NOT SUBSIDIZE ELECTRIC HEAT CUSTOMERS?**
7 **A16.** No. It is indisputable that electric heating customers are currently being
8 subsidized not only by other residential customers, but by non-residential
9 customers as well. Mr. Karchefsky was wrong when he suggested that electric
10 heating customers are not being subsidized by other customers. Kirtland Tr., p.
11 42. At least since the generation and distribution rates were restructured in 2009,
12 electric heating customers have been subsidized by other residential and non-
13 residential customers. As with Mr. Bishop, Mr. Karchefsky did not work in the
14 rate department of any of the Companies. Therefore, he lacks experience and
15 expertise regarding the development of the Companies' rate design and,
16 specifically, regarding certain customers subsidizing other customers.
17 **Q17. WHY DO YOU SAY ELECTRIC HEATING CUSTOMERS ARE**
18 **SUBSIDIZED?**
19 **A17.** All residential customers, including electric heating customers, are currently
20 charged for generation service and distribution service under tariffs approved by
21 the Commission. These charges represent the costs incurred by the Companies to
22 provide electric service to these customers. If residential electric heating
23 customers receive discounts off the price paid by other residential customers, then

other customers must make up the difference to cover the discount being provided to electric heating customers.

Q18. WHAT DISCOUNTS ARE BEING PROVIDED TO ELECTRIC HEATING CUSTOMERS THAT CAUSE ELECTRIC HEATING CUSTOMERS TO BE SUBSIDIZED BY OTHER RESIDENTIAL AND NON-RESIDENTIAL CUSTOMERS AND ARE THE DISCOUNTS THE SAME FOR ALL THREE COMPANIES?

A18. The discounts apply to electric heating customers for all three Companies. In addition to Rider RGC created earlier in this proceeding, there are two riders in place that provide a credit or discount to electric heating customers that other customers are being charged to make up the difference. First, Rider RDC is an approximate 1.7 cent/kWh distribution credit provided to electric heating customers on winter period monthly usage above 500 kWh. Because electric heating customers receive this credit, all residential customers pay a higher distribution rate to make up the difference. Second, Rider EDR contains a provision that gives electric heating customers a 1.9 cent/kWh generation credit on winter period monthly usage above 500 kWh. Because electric heating customers receive this credit, non-residential customers taking electric service under Rate GS and Rate GP pay to make up the difference. Regarding the third credit implemented through Rider RGC, the Companies are currently not recovering the costs of this discount, but the Commission previously authorized the deferral of those amounts for future recovery from customers.

1 **Q19. DO YOU HAVE ANY COMMENTS ON THE PUBLIC HEARING**
2 **TESTIMONY PROVIDED BY JAMES R. EHLINGER AT THE MAUMEE**
3 **PUBLIC HEARING HELD ON NOVEMBER 18, 2010 IN THIS**
4 **PROCEEDING?**
5 **A19.** Yes. His public hearing testimony was inaccurate in several ways. First, Toledo
6 Edison did not sign separate "electric service contracts" with residential
7 customers to take service under a space heating rate that stated that the rate would
8 "go on as long as the electric heating system remained functional and in the
9 building." Maumee Tr., p. 25. Such a contract would have been directly contrary
10 to Toledo Edison's PUCO-approved rules and regulations.

11 Further, the specific special rates that the Companies historically have
12 charged electric heating customers, in fact, have been increased many times prior
13 to the Companies' most recent distribution rate increase in 2009. For example,
14 for TE, the total charge to electric heating customers in 1973 was from 2.61 to 3.0
15 cents/kWh. Over the years and before December 2008, the charge to these
16 customers changed over twenty times and rose to as high as a range of 6.66 to
17 8.56 cents/kWh. These changes are identified in my Attachments WRR-3 and
18 WRR-5 to my direct testimony. Further, electric heating customers on an electric
19 heating rate prior to January 1, 2007 have continued to receive a discount for
20 having electric space heating without interruption.

1 **Q20. IS MR. EHLINGER CORRECT THAT THE MORE ELECTRICITY**
2 **THAT THE COMPANIES BUY, THE LOWER THE PRICE?**
3 **A20.** No. He is wrong about this as well. The Companies purchase their power
4 through a competitive auction and the bidders bid a flat per/kWh price for 24
5 hours a day, 365 days a year. There is no decline in the price based upon the
6 volume of power purchased by the Companies.
7 **Q21. DID TOLEDO EDISON OR FIRSTENERGY SOLUTIONS HAVE A**
8 **POLICY OF DIRECTING THAT ALL DOCUMENTS OVER THREE**
9 **YEARS OLD BE DESTROYED AS SUGGESTED BY MR. EHLINGER?**
10 **A21.** No. Those entities would have followed the Commission's or other applicable
11 document retention policy. While it is possible that documents were thrown away
12 in accordance with those policies and in the ordinary course of business, there was
13 no direction to "destroy all records that were over three years old" related to
14 electric heating rates.

15 **IV. <u>TESTIMONY OF OCC WITNESS ANTHONY YANKEL</u>**

16 **Q22. DID YOU REVIEW THE PREFILED TESTIMONY OF OCC WITNESS**
17 **ANTHONY YANKEL AND LISTEN TO HIS TESTIMONY AT THE**
18 **HEARING IN THIS CASE?**
19 **A22.** Yes.
20 **Q23. DO YOU AGREE WITH HIS TESTIMONY?**
21 **A23.** No. Mr. Yankel proposes to establish a discount for "all electric customers"
22 based on what he alleges to be the historical discount that electric heating

customers enjoyed relative to standard residential customers. His proposal and testimony are flawed for at least the following reasons:

1. Because electric heating rates were initially established based on the Companies' costs at the time and because the Companies' cost structure has changed, a discount to electric heating customers cannot be justified based on the historical relationship of those customers' rates to those of standard residential customers.
2. Mr. Yankel's analysis improperly assumes that the Companies' cost structure has not changed since 2001.
3. Mr. Yankel improperly assumes that the costs of generation suppliers are relevant and have been unchanged since the initiation of non-standard residential rates.
4. Mr. Yankel improperly uses rate data for only two points in time to establish a historical relationship between electric heating rates and standard residential rates.
5. Because the average winter monthly usage of electric heating customers is far less than 3500 kWh, Mr. Yankel improperly proposes that the discounts for "all electric customers" be based on the historical difference in rates paid by electric heating and standard customers at that level of usage.
6. Mr. Yankel improperly proposes that non-standard, non-electric heating customers receive a discount based on the alleged

historical relationship between electric heating rates and standard residential rates.

7. Mr. Yankel improperly suggests that the discount should stay with the residence and should be indefinite.

8. Mr. Yankel improperly recommends that all customers other than "all electric customers" pay for his proposed discount.

Q24. IS THERE A VALID RATIONALE FOR DETERMINING AN ELECTRIC HEATING DISCOUNT NOW BASED ON A HISTORICAL RELATIONSHIP BETWEEN ELECTRIC HEATING BILLS AND STANDARD RESIDENTIAL BILLS?

A24. No. When the non-standard rates were initially determined and for periods prior to 2001, these rates were determined based on the Companies' cost of service. Notably, the discount was initially justified based on the benefit that service to these customers provided to standard residential customers by defraying fixed generation costs of the utilities during nonpeak periods. Since the Companies no longer own generation facilities, the Companies' cost structure has significantly changed. The Companies' cost to supply generation to customers has become a pass-through. Generation costs to the utilities result from a competitive bid process. Those costs are recovered through the Rider GEN rate which converts the resulting competitive bid price into a seasonally and loss adjusted retail rate. The cost of the Companies to serve all customer classes and all parts of a particular customer class is the same except for the difference in distribution losses. Thus, generation-related discounts to electric heating or other non-

standard customers can no longer be justified on the differences in cost to provide generation service to those customers because there is no difference.

Q25. DO YOU AGREE WITH MR. YANKEL THAT IF IT IS DEMONSTRATED THAT THE COST TO SERVE ELECTRIC HEATING CUSTOMERS IS NOT LESS THAN THE COST TO SERVE STANDARD RESIDENTIAL CUSTOMERS, THEN ELECTRIC HEATING CUSTOMERS SHOULD GET NO DISCOUNT?

A25. Yes. Mr. Yankel testified during the hearing on February 16, 2011 as follows:

> 6 Q. Sure, let me try again. If it could be
> 7 shown that the cost to companies is the same to serve
> 8 electric heating customers as it does other
> 9 customers, including standard residential customers,
> 10 you would not be in favor of eliminating the
> 11 discounts for electric heating customers, correct?
> 12 A. It depends on whether or not I agree with
> 13 the analysis, but, yes, if I agree with the analysis
> 14 I -- I think again back to principles of cost of
> 15 service, I would not see any reason for a discount.
> 16 Q. Okay. So that if it could be shown that
> 17 it cost the companies the same to serve electric
> 18 heating customers as other companies, you will be in
> 19 favor of eliminating the discount?
> 20 A. That would be difficult under today's
> 21 situation where everything has been blended by the
> 22 company, but if it could be shown that, yes, that's
> 23 where I stand.
> Tr. I, page 232.

I agree that electric heating customers should get no discount from the standard residential rate if the cost to serve electric heating customers is not less than the cost to serve standard residential customers. We have demonstrated in my direct testimony and this rebuttal testimony the cost to serve is in fact the same for electric heating customers and standard residential customers, at least as to the

1 cost of providing retail generation service. Therefore, electric heating customers
2 should not get a generation-related discount off of the standard residential rate. In
3 this proceeding, however, the Companies have not proposed to immediately
4 eliminate all the discounts for electric heating customers at this time, but such
5 discounts should properly be phased out over time.

6 **Q26. MR. YANKEL STATES THAT THE COMPANIES' COST STRUCTURE**
7 **HAS REMAINED CONSTANT IN THE TEN YEARS OR SO SINCE**
8 **RESTRUCTURING WAS IMPLEMENTED IN OHIO. DO YOU AGREE?**

9 A26. No. On page 16 of his direct testimony Mr. Yankel comes to an incorrect
10 conclusion based upon his erroneous contention that in 2008 the rate relationship
11 between electric heating customers and standard residential customers remained
12 very similar to the prior ten years, so therefore the cost to serve these customers
13 remained essentially the same. The relationship in the total rate paid by
14 customers was held essentially constant only because the Companies were in a
15 transition period between being a fully integrated utility and having rates set
16 based upon competitive generation pricing. Mr. Yankel is inappropriately using
17 the total rate paid as a poor substitute for the cost to serve. Such an approach is
18 simply wrong. The Companies were collecting their transition costs over this ten
19 year period, as I discuss further below, and that was what was reflected in rates
20 paid by customers. Further, Mr. Yankel ignores the fact that the Companies
21 deferred what would have otherwise been nearly a half a billion dollars in rate
22 increases over the same time period. Finally, the Companies divested their

generation facilities during the past ten years and therefore their generation cost structure has dramatically changed over this timeframe.

Q27. DOESN'T THE FACT THAT THE COMPANIES PAY DIFFERENT SEASONAL RATES FOR GENERATION SUPPORT THE VIEW THAT THE COST STRUCTURE OF THE COMPANIES STILL REFLECTS THAT ELECTRIC HEATING CUSTOMERS BENEFIT OTHER CUSTOMERS?

A27. No. The winning bidders bid a flat year around rate in the auction. The Commission-approved seasonality of the generation prices paid to generation suppliers is designed to better align the wholesale generation suppliers' revenue with the variability of market prices. These seasonal factors are set forth in the Commission-approved Master SSO Supply Agreement signed by each generation supplier. That seasonality is then reflected in retail rates. The fact that electric heating customers use a higher percentage of their annual kWh during the winter period as compared to standard residential customers does not make electric heating customers any less expensive to serve in the winter period than a standard residential customer – the generation cost to serve is the same for both.

1 **Q28. DO YOU AGREE WITH MR. YANKEL THAT, WHILE THE**
2 **COMPANIES' COST STRUCTURES MAY BE DIFFERENT, THE**
3 **COMPANIES' GENERATION SUPPLIERS' COST STRUCTURES ARE A**
4 **SUFFICIENT BASIS ON WHICH TO DETERMINE A DISCOUNT (TR.**
5 **VOL. I, P. 247-48)?**
6 A28. No. The costs that should be considered are the costs of the Companies and not
7 of the Companies' suppliers. After all, it is the Companies' costs that are to be
8 recovered through the Companies' rates. Even if the Companies' suppliers' costs
9 were to be considered, those costs would not be a basis to determine that electric
10 heating customers should receive a discount. As Mr. Yankel admitted, the
11 Companies' generation suppliers' prices are set by the market and are not based
12 on their costs, as would be the case in a traditional regulatory rate setting.
13 Further, even if the Companies' suppliers' prices were solely cost based
14 and were a valid consideration to determine whether electric heating customers
15 should get a discount, the cost structure of generators has changed considerably
16 since the onset of deregulation. Simply put, the demand component of a
17 generation supplier's costs has changed. This can be demonstrated by comparing
18 the amount of generation costs that represent fixed costs (or demand) before
19 restructuring and now. Using the unbundled cost study cited by Mr. Yankel from
20 Case No. 99-1212-EL-ETP, one can determine the relative percentage of
21 generation related revenue resulting from demand. The bundled and unbundled
22 cost studies from Case 99-1212-EL-ETP were conducted on the same basis. The

unbundled study simply breaks down the bundled cost study. The following is a summary of generation related demand and energy costs from that case.

Production

Rate Case Revenue Requirement ($ million)

	Total	Demand	Energy	Percent Demand
TE	594	395	199	66%
OE	1,388	954	434	69%
CEI	1,319	937	382	71%

Currently, the value of capacity, which is demand related, and the amount of capacity required by the market three years in advance is set through PJM's Reliability Pricing Model. I have taken the known cost of capacity for the next three years for the Companies' POLR requirement and compared it to the known entire cost of the Companies' POLR requirement service for the period June 2011 through May 2014. This comparison finds that for the period June 2011 through May 2012, capacity costs make up 15% of the total POLR costs for that same period. Likewise, capacity costs make up 9% of the total POLR costs for the period June 2011 through May 2013 and declines to 7% of the POLR costs for the period June 2011 through May 2014.

These results show that the "fixed cost" component of generation costs has declined by approximately 75% from the Companies' pre-deregulation level. This data thus shows that market rates today reflect a very different situation than

existed for the Companies prior to deregulation. The market rates today do not reflect large demand related costs that existed prior to deregulation when compared to the size of energy costs and the variable market rate and cost.

Q29. IF THE HISTORICAL PERCENTAGE OF STANDARD BILL METHODOLOGY IS USED TO DETERMINE AN ELECTRIC HEATING DISCOUNT, WHICH YOU RECOMMEND AGAINST, HOW SHOULD THE PERCENTAGE BE DETERMINED?

A29. To begin, using such a methodology would be inappropriate because electric heating rates were not developed in that fashion, so there is no historical basis to support such a suggestion. If, however, the historical relationship between electric heating rates and standard residential rates is, inappropriately, to be the basis of determining the level of a discount to be enjoyed by electric heating customers going forward, then such an analysis cannot be performed as proposed by Mr. Yankel. In essence, Mr. Yankel used only two points in time to determine that historical relationship, while ignoring many other comparison points over the life of electric heating rates. The historical relationship between the two rates should be based on the entire history of the existence of the non-standard rate. Mr. Yankel apparently used the earliest date he could conveniently find and then compared that data to data that he obtained from 2008.

A more appropriate analysis would be based on the data provided in Attachment WRR-5, with billing information dating back to 1970 in CEI, 1973 in TE, and 1987 in OE. (The data is reflected graphically in Attachment WRR-3.) The weighted average of the winter total bills for electric heating and standard

customers could be used to determine a more accurate historical relationship between electric heating and standard residential rates. I recommend that the April 2010 total bill information be excluded from such an analysis since those billing amounts include the effects of Rider RGC, which would improperly skew the historical percentage. Also, the percentage comparing electric heating customer bills and standard residential customer bills should be calculated by company, to more closely reflect the historical relationship in each company.

Q30. MR. YANKEL ALSO USED 3,500 KWH AS THE USAGE LEVEL TO DETERMINE HIS ALLEGED HISTORICAL RELATIONSHIPS. IS 3,500 KWH A REASONABLE USAGE LEVEL TO DEVELOP AN ELECTRIC HEATING CREDIT BASED ON PERCENTAGE OF STANDARD BILLS?

A30. No. On average, an OE customer in an electrically heating home uses approximately 2,300 kWh over the non-summer months. For CEI and TE, the average usage for an electric heating customer is less than that for OE. Although a customer's winter peak month usage may exceed this average kWh amount, the average usage over the 9 month winter period is substantially less than 3,500 kWh/month. Based on 2007 and 2008 billing data, the following table shows the average monthly kWh usage per customer, as well as the average winter kWh monthly usage per customer. Although the peak winter month kWh usage reflected on the table below was 3,539, the average winter month kWh usage for the entire winter period was 2,333 kWh.

Month	Season	Avg kWh per Cust
January	W	3,000
February	W	3,477
March	W	3,539
April	W	2,330
May	W	1,523
June	S	1,357
July	S	1,378
August	S	1,437
September	W	1,397
October	W	1,238
November	W	1,721
December	W	2,769
Winter Average Usage Per Customer:		**2,333**

Q31. HAVE YOU DONE ANY ANALYSIS BASED ON THE HISTORICAL RELATIONSHIP YOU DESCRIBED ABOVE?

A31. Yes. Based on the total bill amounts shown for a 2,000 kWh customer in Attachment WRR-5, the historical percentage of standard residential bills paid by electric heating customers is 84.5% in CEI, 68.7% in OE, and 81.0% in TE.

Q32. HOW DOES THIS COMPARE WITH THE VALUE USED BY MR. YANKEL?

A32. Mr. Yankel claimed that electric heating customers paid on average only 65% of the standard residential rates, which is significantly less than the actual historical relationship I presented above, particularly for CEI and TE. If a historical relationship comparison were to be used to set the discount for electric heating customers going forward, then the discount from the standard residential rate should be 15.5% for CEI, 31.3% for OE, and 19% for TE.

1 **Q33. IF THESE HISTORICAL RELATIONSHIPS WERE USED TO**
2 **DETERMINE THE AMOUNT OF THE DISCOUNT THAT SHOULD BE**
3 **ENJOYED BY ELECTRIC HEATING CUSTOMERS, WHAT WOULD**
4 **THE LEVEL OF RIDER RGC BE?**
5 **A33.** Assuming that Riders RDC and EDR continue at their current levels, the Rider
6 RGC credit would need to be reduced to 2.11 cents/kWh for OE. In order to
7 achieve the historical relationships stated in my previous answer, the Rider RGC
8 credit would need to be completely eliminated for CEI and TE, and Rider EDR
9 would need to be reduced to 0.622 cents/kWh for CEI and 1.198 cents/kWh for
10 TE. Reducing the credit in Rider EDR is less favorable to electric heating
11 customers than the Companies' proposal.
12 **Q34. MR. YANKEL RECOMMENDS THAT THE DISCOUNT BE AVAILABLE**
13 **TO ALL "ALL ELECTRIC" CUSTOMERS, MEANING ELECTRIC**
14 **HEATING AND FORMER LOAD MANAGEMENT CUSTOMERS. DO**
15 **YOU AGREE WITH THIS RECOMMENDATION?**
16 **A34.** No. Mr. Yankel provides no basis in his testimony for why load management
17 customers should enjoy discounts, especially discounts that are to be based on the
18 relationship of certain electric heating rates to standard rates. He presents no data
19 about the historical relationship between load management and standard rates. As
20 stated in my direct testimony on page 36, the load management customers who do
21 not heat their homes with electricity should not get an additional winter period
22 discount since their winter usage is generally lower than the winter period usage
23 of electric heating customers. Further, the total charges paid by 88% of load

1 management customers actually decreased from the winter period of 2008/2009 to
2 the winter period 2009/2010 even before Rider RGC was implemented.
3 **Q35. MR. YANKEL HAS RECOMMENDED THAT THE DISCOUNT REMAIN**
4 **WITH THE PROPERTY, I.E., NEW CUSTOMERS THAT PURCHASED**
5 **A HOME AT AN ADDRESS THAT HAD PREVIOUSLY QUALIFIED**
6 **FOR THE DISCOUNT WOULD GET THE DISCOUNT.[1] [TR. 1, P. 218;**
7 **PP. 232-233] WHAT IS YOUR REACTION TO THAT PROPOSAL?**
8 A35. I do not think that it would be appropriate to continue any discount for persons
9 other than those who had received the discount previously. The rationale offered
10 for continuing discounts in this fashion is that doing otherwise would allegedly
11 adversely affect property values and the ability of electric heating customers to
12 sell their homes. As Mr. Ritley demonstrates in his testimony, electrically heated
13 property values do not appear to be adversely affected due to the absence of rate
14 discounts for new owners of those properties.
15 **Q36. DO YOU AGREE WITH MR. YANKEL THAT FUTURE RGC CREDIT**
16 **AMOUNTS FOR THE PERIOD SEPTEMBER 2011 FORWARD SHOULD**
17 **BE RECOVERED FROM ALL CUSTOMERS [OCC EX. 1, P. 40]?**
18 A36. No. Costs that are incurred by the Companies to serve a certain class should
19 generally be paid for by that class except under certain economic development
20 circumstances or as may be agreed to by the parties. However, Mr. Yankel
21 testified that electric heating rates are not economic development rates. OCC Ex.

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[1] Staff witness Fortney also made this proposal.

1, pp. 9, 19, 25. Rider RGC is a discount that is being provided to certain residential customers and as such the shortfall arising from that discount should be collected from all residential customers. In base rate cases of the Companies prior to restructuring, the Commission generally set revenue requirements by class, except for situations involving economic development, and then addressed rate design issues inside the individual classes. Similar rate design principles should continue to be applied today. The generation cost to serve the residential class is known and the process to determine those costs was approved by the Commission in Case 08-935-EL-SSO and 10-388-EL-SSO. Absent a broad agreement among the various classes of customers, the recovery of those residential generation costs, even if they are a form of discounts for the purpose of rate gradualism, must come from the residential class. The basic tenet of ratemaking over several decades of work is that the class responsible for causing the cost should also be responsible for providing the revenue to cover the costs.

Further, Mr. Yankel's apparent belief that all customer classes benefited from electric heating customers is based on his review of a cost of service study provided in Case No. 99-1212-EL-ETP. (See OCC Ex. 1, Ex. AJY-2.) But as was discussed at length in my direct testimony, the basis for that cost study no longer exists and the cost of generation being incurred by the Companies to provide retail generation service to electric heating customers at present and going forward cannot simply be ignored, as suggested by Mr. Yankel.

Q37. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A37. Yes, at this time.

The Cleveland Electric Illuminating Company
Cleveland, Ohio

6th Revised Sheet No. 18
Cancels 5th Revised Sheet No. 18

P.U.C.O. NO. 11
ELECTRIC SERVICE

MAR 12 1980 to JUL 13 1984

RESIDENTIAL SCHEDULE

Applicable to residential installations in a single family house, a single suite in a multiple family house, or a single suite in a multiple apartment, a mobile housing unit or any other residential unit, and not more than four such installations on the same Premises when combined as provided herein.

MONTHLY RATES:

		SUMMER	WINTER
1. CUSTOMER CHARGE	per month	$3.05	$3.05
2. KILOWATTHOUR CHARGE		Cents per kWh	
For the first	1,000 kWh	3.964	3.444
For all excess		3.964	1.984

The Winter Rates specified above shall be applicable in seven consecutive monthly billing periods beginning with the November bills each year. The Summer Rates shall apply in all other billing period.

3. SPACE HEATING/WATER HEATING DISCOUNT

THESE PROVISIONS ARE AVAILABLE ONLY FOR WATER HEATING INSTALLATIONS EXISTING ON NOVEMBER 28, 1973 AND SPACE HEATING INSTALLATIONS EXISTING ON DECEMBER 1, 1977.

The Rates specified in Section 2 above shall be reduced by one of the following provisions if applicable:

a. Where electricity is the sole source of energy for space heating (except for incidental requirements), the Winter Rates specified above shall be reduced by 1.0¢ per kWh for usage between 300 kWh and 600 kWh per month and by 0.6¢ per kWh for all usage in excess of 600 kWh per month, or

b. Where electricity is the sole source of energy for water heating and the electric water heating installation is approved by the Company and is in service and in regular use, the Rates specified above shall be reduced by 1.0¢ per kWh for usage between 300 kWh and 600 kWh per month and by 0.6¢ per kWh for usage between 600 kWh and 2000 kWh per month.

4. OPTIONAL SPACE HEATING RATE

Where electricity is the primary source of energy for space heating and where the consumer pays for and has a load meter installed the rates specified in Section 2 above shall be modified as follows:

Filed under authority of Order No. 78-677-EL-AIR of
The Public Utilities Commission of Ohio, dated March 5, 1980

Issued March 12, 1980 by Robert M. Ginn, President
Effective for bills rendered on or after March 12, 1980

The Cleveland Electric Illuminating Company
Cleveland, Ohio

7th Revised Sheet No. 18
Cancels 6th Revised Sheet No. 18

P.U.C.O. NO. 11
ELECTRIC SERVICE

JUL 14 1980 to JUN 29 1981

RESIDENTIAL SCHEDULE

Applicable to residential installations in a single family house, a single suite in a multiple family house, or a single suite in a multiple apartment, a mobile housing unit or any other residential unit, and not more than four such installations on the same Premises when combined as provided herein.

MONTHLY RATES:

			SUMMER	WINTER
1.	CUSTOMER CHARGE	per month	$3.00	$3.00
2.	KILOWATTHOUR CHARGE		Cents per kWh	
	For the first	1,000 kWh	4.57	3.95
	For all excess		4.57	2.20

The Winter Rates specified above shall be applicable in seven consecutive monthly billing periods beginning with the November bills each year. The Summer Rates shall apply in all other billing periods.

3. SPACE HEATING/WATER HEATING DISCOUNT

THESE PROVISIONS ARE AVAILABLE ONLY FOR CUSTOMERS RECEIVING SERVICE UNDER THESE PROVISIONS ON JULY 14, 1980.

The Rates specified in Section 2 above shall be reduced by one of the following provisions if applicable:

a. Where electricity is the sole source of energy for space heating (except for incidental requirements), the Winter Rates specified above shall be reduced by 1.0¢ per kWh for usage between 300 kWh and 600 kWh per month and by 0.6¢ per kWh for all usage in excess of 600 kWh per month, or

b. Where electricity is the sole source of energy for water heating and the electric water heating installation is approved by the Company and is in service and in regular use, the Rates specified above shall be reduced by 1.0¢ per kWh for usage between 300 kWh and 600 kWh per month and by 0.6¢ per kWh for usage between 600 kWh and 2000 kWh per month.

4. OPTIONAL SPACE HEATING RATE

Where electricity is the primary source of energy for space heating and where the consumer pays for and has a load meter installed the rates specified in Section 2 above shall be modified as follows:

Filed under authority of Order No. 79-537-EL-AIR and 79-774-EL-CMR of The Public Utilities Commission of Ohio, dated July 10, 1980

Issued July 14, 1980 by Robert M. Ginn, President
Effective for service rendered on or after July 14, 1980

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Rebuttal Testimony of William R. Ridmann was delivered to the following persons by e-mail on the 23rd day of February, 2011:

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