BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Review of the Alternative Energy Rider Contained in the Tariffs of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company	))))))	Case No.11-5201-EL-RDR

DIRECT TESTIMONY OF

EILEEN M. MIKKELSEN

ON BEHALF OF

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

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. My name is Eileen M. Mikkelsen. I am employed by FirstEnergy Service Company as the Director of Rates and Regulatory Affairs for the FirstEnergy Ohio utilities (Ohio Edison Company, The Toledo Edison Company, and The Cleveland Electric Illuminating Company, collectively "the Companies"). My business address is 76 South Main Street Akron, Ohio 44308.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Science Degree in Accounting in 1982 from the University of Detroit and a Masters of Business Administration from Cleveland State University in 1985. I have been employed by FirstEnergy Service Company or one or its affiliates or predecessor companies since 1982. I began my career in the Internal Audit Department and joined the Rates and Regulatory Affairs Department in the mid 1980's where I worked in various roles with increasing responsibility until I assumed the position of Director of Strategic Planning. I subsequently worked in various positions at FirstEnergy Solutions Corp. ("FES") in various Strategic Planning, Marketing and Regulatory areas as well as FES' Energy Consulting Business. I assumed my position as Director of Rates and Regulatory Affairs in June, 2010.

Q. HAVE YOU EVER TESTIFED BEFORE THIS COMMISSION?

A. Yes, I testified during my previous tenure in the Rates and Regulatory Affairs area.

Most recently I testified in Case Nos. 12-2190-EL-POR, 12-2191-EL-POR and 12-2192-EL-POR.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In my testimony, I will address various recommendations and findings made by the Financial Auditor ("Goldenberg") in its report filed in this proceeding and I will address the appropriateness of the recovery of the costs incurred. Specifically, I will be addressing the recommendations included in Section VII, List of Recommendations at page 31 of the Goldenberg Report.

Q. HAVE YOU REVIEWED THE FINAL FINANCIAL AUDIT REPORT ISSUED BY GOLDENBERG AND THE RECOMMENDATIONS THEREIN?

A. Yes, I have.

Q. DO YOU PLAN TO ADDRESS ALL OF THE RECOMMENDATIONS CONTAINED IN THE GOLDENBERG FINANCIAL AUDIT REPORT?

A. I will address most of the recommendations contained in the Goldenberg Final Financial Audit Report. Mr. Stathis, however, will address recommendations 11, 12 and 16 dealing with our REC retirement policy and REC retirement implementation.

Q. DO YOU AGREE WITH THE REMAINING RECOMMENDATIONS MADE BY GOLDENBERG IN ITS FINANCIAL AUDIT REPORT?

A**.** I agree with a number of the recommendations made by Goldenberg and, if approved by the Commission, we will implement those on a going forward basis if we haven't already done so. However, some of the recommendations Goldenberg included in its report cannot be implemented as proposed due to regulatory commitments that exist for the FirstEnergy Ohio utilities as part of their Electric Security Plan(s) approved by the PUCO.

Q. DO YOU AGREE WITH GOLDENBERG'S CONCLUSION THAT THE COMPANIES' PROCESSES, PROCEDURES, AND PRACTICES PROVIDE ASSURANCE THAT THE INFORMATION CONTAINED IN ITS RIDER AER FILINGS CAN BE RELIED UPON FOR SETTING RIDER AER RATES AFTER CORRECTING FOR THE FINDINGS NOTED IN THE FINANCIAL AUDIT 1 REPORT?

A. Yes. I believe the Companies' processes, procedures and practices provide assurance that the information contained in Rider AER filings can be relied upon for setting Rider AER rates. Certain recommendations made by Goldenberg may improve the processes, procedures and practices and will be implemented on a going forward basis. Other recommendations are not necessary because they are counter to existing regulatory agreements.

Q. DO YOU BELIEVE THE COSTS INCURRED AND RECOVERED DURING THE AUDIT PERIOD WERE APPROPRIATE AND RECOVERED IN ACCORDANCE WITH EXISTING APPROVED RECOVERY MECHANISMS?

A. Yes. I believe the costs incurred and recovered during the audit period were appropriate and were recovered in accordance with the Commission approved recovery mechanism. The Companies were initially given authority to recover the prudently incurred costs of renewable energy credits incurred to meet the statutory mandates in Section 4928.64 of the Ohio Revised Code in Case No. 08-935-EL-SSO (“ESP 1”). This authority was continued in Case No 10-388-EL-SSO (“ESP 2”) and Case No. 12-1230-EL-SSO (“ESP 3”). Companies’ witnesses Dean Stathis and Daniel Bradley have described the reasonableness and effectiveness of the process used to procure the renewable energy credits. Exeter Associates, Inc., in its Management/Performance Audit, agreed that the procurement process employed by the Companies was competitive, transparent, cost effective and solicited an adequate industry response.[1] As Goldenberg concluded, the Companies processes, procedures and practices provide assurance that the information contained in Rider AER filings can be relied upon for setting Rider AER rates. The Companies concur.

Q. DO YOU AGREE WITH GOLDENBERG’S RECOMMENDATIONS (5), (6), (8), (9), (10), (13), (14), AND (15) ON PAGE 31 OF THE FINANCIAL AUDIT REPORT?

A. Yes, upon Commission approval on a going forward basis, the Companies will:

1. Calculate Rider AER every quarter (Recommendation 5).

---

[1] FINAL REPORT (REDACTED) MANAGEMENT/PERFORMANCE AUDIT OF THE ALTERNATIVE ENERGY RESOURCE RIDER (RIDER AER) OF THE FIRSTENERGY OHIO UTILITY COMPANIES FOR OCTOBER 2009 THROUGH DECEMBER 31, 2011 page ii.

2. Include an estimate of administrative costs in each quarterly Rider AER calculation (Recommendation 6).
3. Clearly list the Operating Company allocation on a spreadsheet that will be attached to all invoices (Recommendation 8).
4. Ensure that the purchase price of RECs will be allocated among the Operating Companies based on the three-year average of each Operating Companies' SSO retail electric sales as a percentage of all Companies' three-year average of SSO retail sales (Recommendation 9).
5. Revise the carrying cost calculation to reflect the difference between the actual booked revenue and the actual cash expenditures (Recommendation 10).
6. Improve communications between Regulated Commodity Sourcing and Rates and Regulatory Affairs regarding the estimated level of REC expense expected to be booked in the following quarter (Recommendation 13).
7. Use the most current estimated sales information available when calculating the Rider AER (Recommendation 14).
8. Calculate a single Operating Company allocation at the beginning of each year and it will be applied to all costs incurred that year for REC compliance (Recommendation 15).

Q. DO YOU AGREE WITH GOLDENBERG'S RECOMMENDATIONS (2), (3), (4), AND (7) ON PAGE 31 OF THE FINANCIAL AUDIT REPORT?

A. No. Recommendations 2, 3 and 4 are aimed at trying to align the costs recovered each quarter in Rider AER more closely with the costs estimated to be incurred in that quarter with any over or under recovery included in the Rider for the second subsequent quarter.. Recommendation 7 entails one fourth of the under recovered deferral balance as of December 31, 2011 being recovered in each of the next four quarterly Rider AER calculations. The Companies are bound by regulatory commitments that preclude the Companies from implementing these recommendations.

Q. WHAT REGULATORY COMMITMENTS PREVENT THE COMPANIES FROM IMPLEMENTING THESE RECOMMENDATIONS?

A. On July 18, 2012, in Case No. 12-1230-EL-SSO, the Public Utilities Commission of Ohio ("Commission") adopted a Stipulation and approved the Companies' Application for authority to provide a standard service offer in the form of an Electric Security Plan,commonly referred to as ESP 3. One of the principle changes in ESP 3 (over the prior ESP) was to lengthen the recovery period for renewable energy credit costs. The elongation of the recovery period was designed to contribute to more stable electric pricing to our customers. Under ESP 3, the Commission approved the continued recovery of the cost of renewable energy requirements through the Rider AER mechanism, but adjusted the recovery period such that costs would be recovered, on a levelized basis, through May 31, 2016 (the end of ESP 3). This levelized rider charge includes any unrecovered deferral balances associated with the cost of renewable energy credits. Such amounts could include accumulated deferred interest and an estimate of costs expected to be incurred to meet the renewable energy mandates through May 31, 2016. The latter, in turn, may include costs related to procurement and administration. The levelized Rider AER was implemented on October 1, 2012. Implementation of Goldenberg's Recommendations 2, 3, 4 and 7 would require full recovery of the existing deferral balance over a much shorter time period than was approved in ESP 3. In addition to being inconsistent with the recovery period approved in ESP 3, implementing these recommendations would result in customers paying higher rider AER charges than they are paying today.

Q. DO YOU AGREE WITH GOLDENBERG'S RECOMMENDATION THAT THE OVERALL RIDER AER RATE CALCULATED FOR EACH OPERATING COMPANY SHOULD BE USED RATHER THAN ALLOCATING TO RATE SCHEDULE BASED ON LOSS FACTORS (RECOMMENDATION 1)?

A. No. The Companies are bound by a separate regulatory commitment that also precludes the Companies from implementing that recommendation. Goldenberg recommended that the Companies change the Rider AER rate design to eliminate the allocation of each Operating Company's overall quarterly rate to the various individual rate schedules using each class's loss factor compared to the overall loss factor for the Operating Company. Instead, Goldenberg proposed using the overall Operating Company rate for each individual rate schedule. Implementation of this recommendation would change the approved rate design. The total costs collected by the rider would not change but cost responsibility would be shifted among individual rate schedules. The Companies' ESPs require that the rate design in effect at the time of the Stipulation remain in effect throughout the term of the ESP unless expressly modified in the ESP. The recommended change in rate design was not included in the ESP and therefore can not be implemented.

Q. ARE THE COMPANIES WILLING TO IMPLEMENT GOLDENBERG'S RECOMMENDATION THAT THE COMMISSION REQUIRE EACH OPERATING COMPANY TO DEVELOP 3% PROVISION CALCULATIONS FOR THE CALENDAR YEAR 2013 AND THE BALANCE OF THE SSO PERIOD AND TO CONSIDER REQUIRING THE OPERATING COMPANIES TO PROVIDE A HISTORICAL 3% CALCULATION TO DETERMINE THE COMPANIES' STATUS WITH THE 3% PROVISION (RECOMMENDATION 17)?

A. If the Commission would like this information, we will provide the calculations. The Operating Companies can prepare and provide the 3% calculation, as described for the calendar year 2013 as well as through May 31, 2016, the balance of the SSO period, using projected compliance costs for any future periods. The forward looking 3% calculation will hold generation costs constant at then current levels. It should be noted that the recommendation to perform the calculation by Operating Company will result in the same percentage as if the calculation was performed on a composite basis due to the fact that the REC expense is allocated to each company based on their three-year average SSO sales share.

Additionally, if the Commission would like the information, each Operating Company can provide annually the 3% calculation which reflects the final cost of compliance for the calendar year and the current year generation cost applied to the three-year average SSO sales. The Companies can provide this calculation for the prior calendar year with the Rider AER workpapers provided to the Staff in support of the second quarter Rider AER update filing each year.

Q. ARE YOU AWARE OF GOLDENBERG'S FINDING THAT THE FIRSTENERGY OPERATING COMPANIES CONSISTENTLY HAD HIGHER RATES FOR RECOVERING THE REC RELATED COSTS THAN THE OTHER OHIO EDU'S?

A. Yes, but I don't think it is particularly meaningful as an analytic exercise. It appears to be based on a compilation of rates that Goldenberg found or estimated from Fuel Adjustment Clause filings. Goldenberg failed to provide any information regarding what the rates represent, whether they are accurate or what the underlying facts and circumstances were that gave rise to the rate.

Further, there are factors that are beyond the control of the Companies that could contribute to the Companies' having higher REC cost-based rates. One contributing factor to the difference is the disconnect between the level of sales included in the baseline calculation for compliance standards compared to the level of sales used to recover the prudently incurred compliance costs. The baseline calculation multiplies the average of the three previous years of non-shopped sales by the renewable requirement percentage. In times of significant changes in shopping levels for a certain service territory, the baseline used for compliance purposes will not be equivalent to the non-shopping kWh used for recovery. The Companies experienced a high level migration from SSO service to shopping starting at the time the renewable requirement was put into place. Goldenberg acknowledged the higher than expected shopping levels in its report, stating, "In eight of the nine quarters of the audit period, actual sales volumes were from 7% to 36% less than forecasted volumes." [p.23-24] This higher level of shopping led to the Companies having to: (a) retire a disproportionately high level of renewable energy credits based on the three year baseline when shopping was much lower; and (b) then recover those associated costs over the then current but much lower non-shopping kWh. To my knowledge, the other utilities in the state did not experience a similar rate of change in their levels of shopping.

Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A. Yes. I reserve the right to supplement my testimony.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was delivered to the following persons by e-mail this 23d day of January, 2013:

Terrence O'Donnell
J. Thomas Siwo
BRICKER & ECKLER LLP
100 South Third Street
Columbus, OH 43215-4291
Telephone: (614) 227-2345
Facsimile: (614) 227-2390
E-mail: todonnell@bricker.com
tsiwo@bricker.com

Attorneys for Mid-Atlantic Renewable Energy Coalition

Bruce J. Weston
Melissa Yost
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, OH 43215-3485
Telephone: (Serio) (614) 466-9565
Facsimile: (614) 466-9475
E-mail: yost@occ.state.oh.us

Attorneys for Office of the Ohio Consumers' Counsel

William Wright
Chief, Public Utilities Section
Public Utilities Commission of Ohio
180 East Broad Street, 6th Floor
Columbus, OH 43215
E-mail: William.wright@puc.state.oh.us

Attorneys for the Staff of the Public Utilities Commission of Ohio

David F. Boehm
Michael L Kurtz
Jody M. Kyler
Boehm Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202
Telephone: (513) 421-2255
Facsimile: (513) 421-2764
E-mail: dboehm@BKLlawfirm.com
mkurtz@BKLlawfirm.com
jkyler@BKLlawfirm.com

Attorneys for The Ohio Energy Group

Christopher J. Allwein
Williams, Allwein & Moser, LLC
1373 Grandview Ave., Suite 212
Columbus, OH 43212
Telephone: (614) 429-3092
Facsimile: (614) 670-8896
E-mail: callwein@wamenergylaw.com

Attorney for the Sierra Club

Michael K. Lavanga
Brickfield, Burchette, Ritts & Stone PC
1025 Thomas Jefferson Street NW
8th Floor West Tower
Washington, DC 20007
Telephone: (202) 342-0800
Facsimile: (202) 342-0807
E-mail: mkl@bbrslaw.com

Attorney for Nucor Steel Marion, Inc.

Cathryn Loucas
Trent A. Dougherty
Ohio Environment Council
1207 Grandview Avenue, Suite 201
Columbus, OH 43212-3449
Telephone: (614) 487-7506
Facsimile: (614) 487-7510
E-mail: cathy@theoec.org
trent@theoec.org

Attorneys for the OEC

Theodore S. Robinson
Citizen Power
2121 Murray Avenue
Pittsburgh, PA 15217
Telephone: (412) 421-7029
Facsimile: (412) 421-6162
E-mail: robinson@citizenpower.com

Attorney for Citizen Power

Matthew W. Warnock
BRICKER & ECKLER LLP
100 South Third Street
Columbus, OH 43215-4291
Telephone: (614) 227-2300
Facsimile: (614) 227-2390
E-mail: lmcalister@bricker.com
mwarnock@bricker.com

Attorneys for The OMA Energy Group

M. Howard Petricoff
Michael J. Settineri
Lija Caleps-Clark
VORYS, SATER, SEYMOUR AND PEASE LLP
52 East Gay Street
Columbus, OH 43215
Telephone: (614) 464-5414
mhpetricoff@vorys.com
mjsettineri@vorys.com
lkalepsclark@vorys.com

Attorneys for Interstate Gas Supply, Inc.

Nicholas McDaniel
ENVIRONMENTAL LAW &
POLICY CENTER
1207 Grandview Ave., Suite 201
Columbus, OH 43212
NMCDaniel@elpc.org

Attorney for ELPC

*s/ David A. Kutik*__________________
An Attorney For Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company