Company Exhibit_______

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 Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan	)))))))	Case No. 14-1297-EL-SSO

DIRECT TESTIMONY OF

EILEEN M. MIKKELSEN

ON BEHALF OF

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

AUGUST 4, 2014

INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION, 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 Corp. Ohio utilities (Ohio Edison Company ("Ohio Edison"), The Cleveland Electric Illuminating Company ("CEI") and The Toledo Edison Company ("Toledo Edison") (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 degree from Cleveland State University in 1985. I have been employed by FirstEnergy Service Company or one of 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. In that department, I worked in various roles with increasing responsibility until I assumed the position of Director of Strategic Planning. I subsequently worked in several positions at FirstEnergy Solutions Corp. ("FES") in various Strategic Planning, Marketing and Regulatory areas and in FES's Energy Consulting Business. I assumed my present position, as Director of Rates and Regulatory Affairs, in June, 2010.

Q. HAVE YOU PREVIOUSLY TESTIFED BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?

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

Most recently, I testified on behalf of the Companies in Case Nos. 11-5201-EL-RDR, 12-2190-EL-POR, 12-2191-EL-POR, and 12-2192-EL-POR.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. In my testimony, I provide an overview of the Companies' fourth electric security plan entitled Powering Ohio's Progress (also referred to as "ESP IV"), which is proposed to cover the term from June 1, 2016 to May 31, 2019, and support the Companies' Application. My testimony will also address a number of policy issues related to the Powering Ohio's Progress filing and some specific recommendations. Specific topics covered in my testimony include:

- Overview of the proposed Powering Ohio's Progress plan;
- Introduction of witnesses and topics for their testimony;
- Commitment for a base distribution rate freeze and continuation of associated provisions;
- Continuation of Delivery Capital Recovery Rider ("Rider DCR");
- Retail Rate Stability Rider Review;
- Low income, energy efficiency and economic development commitments;
- Status of transmission commitment in prior ESPs;
- Overview of the Companies' riders, including those that will expire May 31, 2016 and riders with proposed changes;
- Cost recovery of payments made to net generators under the net metering tariffs;
- Proposed addition of a rider to recover future costs associated with government directives; and

- Description of how Powering Ohio's Progress advances state policy.

POWERING OHIO'S PROGRESS OVERVIEW

Q. **PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED POWERING OHIO'S PROGRESS PLAN.**

A. Powering Ohio's Progress will be the fourth electric security plan for the Companies and builds upon the success of the Companies' current and prior ESPs. Powering Ohio's Progress is a comprehensive plan designed to provide more stable and predictable electric prices, while assuring a continuous supply of power for Standard Service Offer ("SSO") customers procured through a competitive bid process. Powering Ohio's Progress includes an Economic Stability Program that is designed to provide all of the Companies' customers – both shoppers and non-shoppers – a number of benefits including a retail rate stability rider designed to provide customers more stable, predictable and less costly power pricing through May 2031. It will also provide generation assurance, fuel diversity, improved reliability, economic development, job retention, a maintained tax base, assured continued operation of zero carbon generation in Ohio, and the ability to avoid costly transmission investments. In addition to the Economic Stability Program, Powering Ohio's Progress also includes a number of provisions designed to: (1) advance state policy; (2) enhance the retail competitive market in Ohio; (3) address issues raised in the Retail Market Investigation ("RMI"); (4) protect and enhance the energy delivery system; (5) promote economic development; (6) support low income customers; (7) support energy efficiency and (8) streamline the Companies' riders and tariffs. Importantly, Powering Ohio's Progress provides significant customer value that otherwise would not be available under a Market Rate Offer ("MRO").

Q. **PLEASE SUMMARIZE THE MAJOR ELEMENTS OF POWERING OHIO'S PROGRESS AND THE WITNESSES THAT WILL BE TESTIFYING IN SUPPORT OF THE ESP IV'S VARIOUS PROVISIONS.**

A. The various provisions of ESP IV are addressed by 17 witnesses. The following table identifies the Company witnesses and the general topics that each of the witnesses will address in their pre-filed direct testimony.

- Eileen M. Mikkelsen – Policy Overview, Rate and Regulatory Matters and Economic Stability Provision;
- Santino L. Fanelli – MRO v. ESP Test, Rate and Regulatory Matters, and Pro Forma Financials and Customer Bill Impacts;
- Meghan C. Jurica – Rider GEN and Rider AER rate design;
- Brandon S. McMillen – Government Directives Recovery Rider rate design;
- Bradley A. Miller – Competitive Bid Process;
- Edward B. Stein – Master Supply Agreement, Supplier Tariff, Rider NMB;
- Marybeth Smialek – Supplier Tariff, Electric Service Regulations, and CRES Matters;
- Steven E. Strah – Policy Overview – Economic Stability Program;
- Donald A. Moul – Policy Overview – Economic Stability Program;
- Jay A. Ruberto – Economic Stability Program – Plan Description and Term Benefit;

- Jason Lisowski – Economic Stability Program – Projected Costs and Revenues;
- Steve Staub – Economic Stability Program – Return on Equity and Capital Structure;
- Paul A. Harden – Economic Stability Program – Plant Characteristics;
- Gavin L. Cunningham – Economic Stability Program – Transmission Costs;
- Joanne Savage – Economic Stability Program – Retail Rate Stability Rider rate design and Rider GCR;
- Judah L. Rose – Economic Stability Program – Forward Market Pricing; and
- Sarah Murley – Economic Stability Program – Economic Impact.

<u>BASE DISTRIBUTION RATE FREEZE</u>

Q. **THE COMPANIES' CURRENT ESP, ESP III, INCLUDES A COMMITMENT TO FREEZE BASE DISTRIBUTION RATES. DOES THE PROPOSED ESP IV INCLUDE A SIMILAR COMMITMENT?**

A. Yes. As part of the comprehensive set of provisions included in the proposed ESP IV, and assuming that ESP IV is approved without modification, the Companies commit that no adjustment to base distribution rates would go into effect prior to the effective date of the next ESP. Most of the existing Commission approved riders and existing deferrals – as well as recovery of lost distribution revenue – are proposed to continue while ESP IV is in effect, consistent with the existing terms and conditions approved by the Commission. This combination of more certain rate levels, timely recovery of certain rate components and deferral of storm-related costs will allow the Companies to provide electric service at more stable, predictable prices for an extended period of time. These stable, more predictable prices support economic development, the economy of Ohio and the well-being of our customers.

Q. ARE THERE EXCEPTIONS TO THE PROPOSED BASE DISTRIBUTION RATE FREEZE?

A. While the Companies expect that base distribution rates for our customers will continue to be frozen as described above, there may be limited circumstances that could override that commitment. Consistent with the commitment made by the Companies and approved by the Commission in ESP III, the Companies would be permitted to seek a base distribution rate change due to an emergency pursuant to Ohio Revised Code Section 4909.16. This base distribution rate freeze commitment would not preclude the Companies from implementing a revenue neutral rate design, eliminating subsidies, or offering a new service. Also, the Companies reserve the right to seek recovery of incremental taxes, similar to the rights that the Companies currently have in ESP III.

Q. PLEASE EXPLAIN THE INCREMENTAL TAX PROVISION IN THE COMPANIES' CURRENT ESP.

A. The stipulation in the Companies' ESP III case, which was approved by the Commission in July 2012, allows the Companies to file a separate application to commence recovery of any new or incremental taxes arising after June 1, 2011, paid or collected by the Companies and not recovered elsewhere. The application will be deemed approved if the Commission has not ruled to the contrary within 90 days of the filing. The recovery of such taxes would be subject to a Staff audit. To date, the Companies have not submitted an application for recovery of incremental taxes and do not have plans for such an application at this time.

Q. HOW DO THE COMPANIES PROPOSE TO ADDRESS THE INCREMENTAL TAX PROVISION AS PART OF ESP IV?

A. The Companies are simply proposing to continue the current provision for the term of the ESP IV. Specifically, during the term of the ESP, should new or incremental taxes arise and should they not be recovered elsewhere, the Companies reserve the right to file a separate application with the Commission to commence recovery. The Companies' filing will be subject to the same terms and conditions as provided in the current ESP III.

Q. EARLIER, YOU REFERRED TO THE CONTINUATION OF THE STORM DEFERRAL MECHANISM. PLEASE DESCRIBE THE CURRENT STORM DEFERRAL MECHANISM.

A. The Companies currently have authority to defer actual storm damage expenses above or below the amounts included in the test year in the Companies' last base distribution rate case (Case No. 07-551-EL-AIR). The authority for this deferral was originally granted in the Companies' last base distribution rate case and was later extended through their ESP II (Case No. 10-388-EL-SSO) and ESP III (Case No. 12-1230-EL-SSO). Under the current deferral mechanism, actual storm damage expenses in excess of the test year levels are added to the deferral, while actual storm damage expenses that are less than the test year levels are subtracted from the deferred amount.

Q. HOW DO THE COMPANIES PROPOSE TO ADDRESS THE STORM DEFERRAL AS PART OF ESP IV?

A. The Companies propose to continue the current storm deferral mechanism during ESP IV under the same terms and conditions that exist today under ESP III. Disposition of any regulatory asset or liability balance at the end of ESP IV will be addressed in a future proceeding.

Q. IS THE COMMITMENT TO FREEZE BASE DISTRIBUTION RATES CONTINGENT UPON RECOVERY OF LOST DISTRIBUTION REVENUE?

A. Yes. In order to balance appropriately the interests of customers with the interests of shareholders, the Companies need to continue recovery of lost distribution revenue throughout the term of the base distribution rate freeze.

<u>CONTINUATION OF DELIVERY CAPITAL RECOVERY RIDER</u>

Q. DO THE COMPANIES PLAN TO CONTINUE TO INVEST IN THE DISTRIBUTION SYSTEM DURING THE PERIOD OF THE BASE DISTRIBUTION RATE FREEZE?

A. Yes. Rider DCR will continue as a mechanism to better enable the Companies to continue to make investments in our delivery systems, thus benefiting customers with the opportunity for enhanced reliability.

Q. DO THE COMPANIES TRACK AND MEASURE RELIABILITY PERFORMANCE?

A. Yes. The Companies track and measure their performance against Commission approved reliability performance standards which have been effective since 2010. These reliability standards were approved in Case No. 09-759-EL-ESS.

Q. PLEASE DESCRIBE THE COMPANIES' RELIABILITY STANDARDS.

A. Each Company has a System Average Interruption Frequency Index ("SAIFI") and Customer Average Interruption Duration Index ("CAIDI") reliability standard. SAIFI represents the average number of interruptions per customer. CAIDI represents the average time required to restore service per interrupted customer.

Q. HAVE THE COMPANIES MET THEIR RESPECTIVE RELIABILITY STANDARDS?

A. Yes. The following table demonstrates the Companies' performance against the reliability standards since their inception.

Ohio Edison					
Index	**2010**	**2011**	**2012**	**2013**	**Minimum Standard**
SAIFI	0.89	0.86	0.85	0.71	1.11
CAIDI	102.53	113.76	105.83	100.78	114.37

CEI					
Index	**2010**	**2011**	**2012**	**2013**	**Minimum Standard**
SAIFI	0.98	1.18	0.96	0.86	1.30
CAIDI	114.98	116.87	107.35	99.55	135.00

Toledo Edison					
Index	**2010**	**2011**	**2012**	**2013**	**Minimum Standard**
SAIFI	0.61	0.64	0.61	0.52	1.00
CAIDI	92.01	106.71	91.88	100.87	112.33

A review of the table demonstrates that the Companies' actual reliability performance has consistently outperformed (i.e., been lower than) their reliability standards from 2010 through 2013. The Companies' reliability standard performance demonstrates that the Companies are placing sufficient emphasis and dedicating sufficient resources to the reliability of their distribution systems.

Q. ARE THE CUSTOMERS' RELIABILITY EXPECTATIONS ALIGNED WITH THE COMPANIES' EXPECTATIONS AND PERFORMANCE?

A. Yes. The Companies completed a customer perception survey in 2013. A total of 2,400 customers were interviewed – 1,200 residential customers (400 from each of the Companies) and 1,200 commercial customers (also, 400 from each of the Companies). Four quarterly surveys of 100 residential and 100 commercial customers were conducted with the final surveys occurring in the first quarter of 2013. The customers were randomly selected for participation in the survey. Both residential and commercial customers' survey results showed improved customer perception on reliability compared to survey results in 2008. Overall, there were fewer residential customers and commercial customers who reported that they "experienced an interruption in electric service, such as flickering or dimming lights, being without power, etc. in the past year" compared to the 2008 survey. Of those who experienced an outage, almost 80% consider the number of interruptions they experienced reasonable. The survey results demonstrate customers' perception that distribution reliability is improving and that they are being interrupted less frequently than in the past. Also, the fact that the Companies' CAIDI performance is better than the reliability standard for all three Companies – and is steadily improving for Ohio Edison and CEI – shows alignment with customers' expectations. When asked, 81% of residential customers and 74% of commercial customers responded that "reducing the length of time it takes to restore power after an outage" was the most important thing that the Companies could do to improve service.

Q. PLEASE DESCRIBE THE COMPANIES' CURRENT RIDER DCR.

A. Rider DCR was originally established as part of the Companies' ESP II and was continued under the Companies' ESP III. Rider DCR provides the Companies the opportunity to earn a return of and on plant in service associated with distribution, transmission, general and intangible plant (including allocated plant from FirstEnergy Service Company that supports the Companies), which was not included in the rate base from the Companies' last distribution rate case. The return earned on such plant is based on the cost of debt of 6.54% and a return on equity of 10.5% determined in the last distribution rate case utilizing a 51% debt and 49% equity capital structure. The net capital additions included for recognition under Rider DCR reflect gross plant in service not approved in the Companies' last distribution rate case less growth in accumulated depreciation reserve and accumulated deferred income taxes associated with plant in service since the Companies' last distribution rate case. Any capital additions that are recovered elsewhere in the Companies' rates are excluded from Rider DCR. Rider DCR also provides the Companies with the opportunity to recover property taxes, Commercial Activity Tax, and associated income taxes associated with these capital additions.

Q. WHAT IS THE PROPOSED PROCESS FOR THE COMPANIES' RIDER DCR FILINGS AND ASSOCIATED AUDITS OVER THE TERM OF ESP IV?

A. The schedule for making quarterly Rider DCR filings during ESP IV will be a continuation of the schedule that is currently used under ESP III. The first quarterly filing for Rider DCR rates to be effective during ESP IV will be made on or about March 31, 2016, with rates to be effective on June 1, 2016. Thereafter, the quarterly filings will be made on or about June 30, September 30, December 31, and March 31, with rates effective on September 1, December 1, March 1, and June 1, respectively. The quarterly filings will be based on estimated balances as of August 31, November 30, February 28, and May 31, respectively, with any reconciliations between actual and forecasted information being recognized in the following quarter.

The Companies' Rider DCR will continue to be subject to an annual audit over the term of ESP IV, with such audits conducted in the same manner as they are today under ESP III. The audit shall include a review to confirm that the amounts for which recovery is sought are not unreasonable and will be conducted following the Companies' Rider DCR filings on each December 31. For purposes of such audits, the determination of whether the amounts for which recovery is sought are not unreasonable shall be determined in light of the facts and circumstances known to the Companies at the time such expenditures were committed. The expense for the audit shall be paid by the Companies and be fully recoverable through Rider DCR.

Q. ARE THERE CHANGES PROPOSED TO RIDER DCR FOR ESP IV?

A. Yes. Due to the passage of time, certain provisions are no longer applicable. Under the Companies current ESP, inclusion of certain capital additions in Rider DCR is contingent upon there being "no net job losses at the Companies' or with respect to FirstEnergy Service Company employees who provide support for distribution services provided by the Companies and are located in Ohio … as a result of involuntary attrition as a result of the merger between FirstEnergy Corp. and Allegheny Energy, Inc." The Companies are proposing the elimination of this provision.

Q. WHY ARE THE COMPANIES PROPOSING THE ELIMINATION OF THIS RIDER DCR PROVISION?

A. The Companies are proposing the elimination of this provision primarily for three reasons. First, the merger occurred in 2011, and any changes in organizational structure and staffing that may have been necessary for the merger transition are now complete. Second, the Staff's external auditor has reviewed this issue as part of all three of the Rider DCR audits conducted to-date. The auditor has never identified an issue or concern with staffing reductions resulting from the merger. Third, each year the customers needlessly continue to pay audit costs associated with the provision. Customers will benefit by the elimination of this unnecessary provision because lower audit costs will be included for recovery in Rider DCR.

Q. ARE THE COMPANIES PROPOSING ANY OTHER CHANGES TO RIDER DCR DURING ESP IV?

A. Yes. While Rider DCR will continue to be subject to revenue caps as it has in the past, the value of the caps should be increased to account for new capital investments in the Companies' infrastructure effective June 1, 2016. Company witness Fanelli addresses the proposed Rider DCR revenue caps.

<u>RETAIL RATE STABILITY RIDER ("RIDER RRS") REVIEW</u>

Q. WHAT COSTS AND REVENUES ARE INCLUDED IN RIDER RRS?

A. Rider RRS will include all costs as described in the testimony of Company witnesses Ruberto, Lisowski and Savage including Legacy Cost Components, as defined below, incurred under the proposed transaction including costs associated with capital investments. Rider RRS will also include all revenue the Companies receive as a result of selling the capacity, energy and ancillary services from OVEC, Davis-Besse and Sammis into the PJM markets.

Q. WHAT ARE LEGACY COST COMPONENTS?

A. Legacy Cost Components are all costs that arise from decisions or commitments made and contracts entered into prior to December 31, 2014, including any costs arising from provisions under such historic contracts that may be employed in the future. These Legacy Cost Components were assumed by a competitive company that prudently and conservatively incurred costs to effectively participate in the competitive market and deliver shareholder value. Moreover, these Legacy Cost Components were reviewed by the EDU Team that Company witness Roberto led and found to be reasonable. Approval of this ESP IV shall be deemed as approval to recover all Legacy Cost Components through Rider RRS as not unreasonable costs.

Q. WILL THERE BE A PROCESS TO REVIEW THE REASONABLENESS OF THE COSTS AND REVENUES INCLUDED IN RIDER RRS?

A. Yes. Rider RRS will be subject to two separate reviews. In the first review, the Staff will have from April 1 to May 31 to review the annual Rider RRS filing for mathematical errors, consistency with the Commission approved rate design, and incorporation of prior audit findings, if applicable.

In the second review, the Staff will have the opportunity to audit the reasonableness of the actual costs (excluding Legacy Cost Components which shall not be included in this second review or challenged in any subsequent audit or review) contained in Rider RSS and the actual market revenues contained in Rider RRS. The audit shall include a review to confirm that the actual costs and actual market revenues included in Rider RRS are not unreasonable.

Any determination that the costs and revenues included in Rider RRS are not unreasonable shall be made in light of the facts and circumstances known at the time such costs were committed and market revenues were received. In that regard, the test is very similar to the historic test that the Commission employed in rate and fuel cases when these units were part of a vertically integrated utility serving Ohio customers. Staff will document the results of their audit in a Staff Report to the Commission. The Companies will be given the opportunity to review the draft Staff Report for factual accuracy and to identify confidential items, if any, prior to its filing. After the filing of the Staff Report, the Companies would then have an opportunity to file a response to the Staff Report and any findings from the Staff audit. If needed, the matter could be set for hearing. Disputed costs and revenues would continue to be recovered in Rider RRS during the dispute period. Resolution of any audit findings will be included in the next Rider RRS filing after the final non appealable Order in that proceeding. Any expenses incurred by the Companies associated with the audit process will be recovered in Rider RRS.

<u>LOW INCOME, ENERGY EFFICIENCY AND ECONOMIC DEVELOPMENT SUPPORT</u>

Q. ARE THE COMPANIES PROPOSING ANY SPECIFIC PROVISIONS IN THE ESP IV TO ASSIST AT-RISK POPULATIONS?

A. Yes. The Companies, in aggregate, will extend funding support for low income customers by continuing to fund the Community Connections program. The Companies will make available $5,000,000 per year to help low income customers across our service territories under the same terms as approved under the Companies' previous ESPs. The Community Connections program provides weatherization measures, energy efficiency solutions, and client education to the Companies' low-income customers. The target beneficiaries of this program are residential customers and landlords of residents eligible for Ohio Home Weatherization Assistance ("HWAP"), Percentage of Income Payment Plan ("PIPP"), or Home Energy Assistance Program ("HEAP").

Q. DO THE COMPANIES PROPOSE ANY SPECIFIC PROVISIONS IN POWERING OHIO'S PROGRESS PLAN TO ASSIST IN ECONOMIC DEVELOPMENT?

A. Yes. As discussed earlier, the Companies believe ESP IV's comprehensive package of provisions proposed will assist in economic development in their service territories and across the State of Ohio. More specifically though, the Companies, in aggregate, will provide funding support by contributing up to $1,000,000 annually for economic development and job retention or energy efficiency activities within their service territories including, but not limited to, funding for customer-owned transformers, redundant feeds, and substations that improve overall performance. This economic development commitment to the Companies' service territories and the State of Ohio would be funded by the Companies without recovery from customers.

In addition, as noted above and as further explained in the testimony of Company witnesses Strah and Murley, the Economic Stability Program will promote economic development and job retention. The continued availability of stable, reasonably priced electricity under the ESP IV will also promote economic development in Ohio.

STATUS OF TRANSMISSION EXPENSE COMMITMENTS IN PRIOR ESPs

Q. WHAT COMMITMENTS DID THE COMPANIES MAKE IN PRIOR ESPs REGARDING THE RECOVERY OF CERTAIN TRANSMISSION RELATED COSTS?

A. In ESP II, the Companies agreed not to seek recovery through retail rates of certain legacy PJM Regional Transmission Expansion Plan ("RTEP") costs as part of a broader understanding that the Companies' customers would pay transmission expansion charges arising from MISO. The total amount of these costs that customers would not pay was set at a maximum of $360 million. Specifically, the commitment was that retail customers would pay the MISO charges, and the PJM legacy transmission expansion costs would not be recovered from the Companies' retail customers until $360 million of PJM legacy transmission expansion costs had been paid for by the Companies or through May 31, 2016 – whichever was longer. To date, the Companies have made payments of just over $80 million for PJM legacy transmission expansion projects without seeking recovery from retail customers.

Q. WHAT WAS THE INTENT OF THE COMPANIES' COMMITMENT TO ABSORB CERTAIN TRANSMISSION EXPANSION CHARGES?

A. The intent was that the Companies would offset the amount of transmission expansion charges that the customers would otherwise have to pay by $360 million. The agreement also contemplated that charges that would have been assessed if the Companies had remained in MISO would continue to be recovered from customers.

Q. WERE OTHER TRANSMISSION RECOVERY RELATED COMMITMENTS MADE AT THE TIME THE COMPANIES MOVED FROM MISO TO PJM?

A. Yes. At that time, the Companies agreed not to seek recovery through retail rates for MISO exit fees or PJM integration fees.

Q. HAVE THE COMPANIES SOUGHT RECOVERY OF THE MISO EXIT FEES OR PJM INTEGRATION COSTS FROM RETAIL CUSTOMERS?

A. No, and consistent with their commitment, the Companies will not seek recovery of those costs. To-date, the Companies have absorbed $40 million in MISO exit fees and PJM Integration related costs.

Q. WHAT ARE THE COMPANIES PROPOSING IN ESP IV PERTAINING TO THEIR COMMITMENT NOT TO SEEK RECOVERY OF TRANSMISSION EXPANSION COSTS?

A. The Companies seek to restore the spirit of their original commitment. Specifically, the Companies will continue not to seek retail rate recovery of transmission expansion charges up to $360 million. However, if MISO transmission expansion costs are not eligible for inclusion in the ATSI formula rate to be recovered by the retail customers of the Companies, those costs should also count toward the $360 million commitment in order to maintain the intent and magnitude of the original agreement. In this potential circumstance, the retail customers still benefit in the same amount as originally committed by not having to pay $360 million in transmission expansion related costs consistent with the intent of the Companies' commitment in ESP II.

Q. WHY SHOULD THE COMPANIES BE ABLE TO COUNT THESE MISO TRANSMISSION EXPANSION COSTS TOWARD THE $360 MILLION LEGACY TRANSMISSION EXPANSION COMMITMENT?

A. It represents the original intent of the commitment. Thus, not counting those costs unfairly and inappropriately disrupts the balance contemplated in the original cost sharing agreement. The Companies agreed to a cost sharing agreement that called for the Companies to absorb certain costs (e.g., MISO exit fees, PJM integration fees and a portion of legacy RTEP costs), while retail customers would pay MISO transmission expansion costs, i.e., costs customers would have borne if the Companies never moved to PJM. If, contrary to the intent of the agreement, retail customers don't pay MISO transmission expansion costs because such costs cannot be included in the ATSI formula rate (billed to the Companies and then passed on to retail customers), as was contemplated when the agreement was reached, then those costs should be counted toward the Companies' commitment of $360 million. Otherwise, the retail customers end up avoiding $360 million in PJM transmission expansion costs ***and*** the additional amounts for MISO transmission expansion that they would have paid but for the move from MISO to PJM. This will yield an unintended result from prior ESPs.

<u>RIDER OVERVIEW</u>

Q. UNDER THE PROPOSED POWERING OHIO'S PROGRESS PLAN, WHICH RIDERS WILL BE CONTINUING AND WHICH RIDERS WILL CHANGE ON JUNE 1, 2016?

A. Attachment 2 to the Application provides a complete list of the Companies' existing riders. The first section includes existing riders that will continue in ESP IV without change. The second section lists the riders that, by their terms, expire on May 31, 2016 and will not be in effect after May 31, 2016. The third section includes existing riders with proposed changes and the final section identifies new riders proposed as part of ESP IV. Attachment 5 to the Application includes redline versions of each of the riders with proposed changes. Attachment 4 to the Application includes new riders proposed for ESP IV. As part of ESP IV, the Companies seek approval of all existing riders that continue into the ESP IV period, including all changes, and all new riders.

Q. WHICH RIDERS WILL EXPIRE AS OF MAY 31, 2016?

A. The following riders or provisions expire by their own terms as of May 31, 2016:

- PIPP Customer Discount;
- Economic Load Response Program;
- Optional Load Response Program;
- Experimental Critical Peak Pricing; and
- Experimental Real Time Pricing.

In addition, certain provisions of the Economic Development Rider ("Rider EDR") will expire on May 31, 2016 and will only be used for reconciliation purposes thereafter.

Q. WHAT PROVISIONS OF RIDER EDR WILL EXPIRE ON MAY 31, 2016?

A. The Interruptible Credit Provision ("Rider EDR (b)"), the Non-Residential Credit Provision ("Rider EDR (c)"), School Credit Provision ("Rider EDR (f)"), Infrastructure Improvement Provision ("Rider EDR (g)") and the Automaker Credit Provision ("Rider EDR (h)") will all expire on May 31, 2016. The Automaker Charge Provision ("Rider EDR (i)") will continue for reconciliation purposes. Any other final reconciliation of charges will be included in Rider EDR (e).

Q. WHICH PROVISIONS OF RIDER EDR WILL CONTINUE DURING ESP IV?

A. The Residential Non-Standard Credit Provision of Rider EDR (i.e., “Rider EDR (a)”) will continue during ESP IV. Recovery of costs associated with this provision will continue in the Standard Charge Provision (“Rider EDR (e)”). The General Service – Transmission (Rate GT) Provision (“Rider EDR (d)”), which is self-contained in terms of charges and credits, will continue with modification through May 31, 2019. All other provisions will either cease to be operative or be used for final reconciliation during the ESP IV term.

Q. WHAT IS THE COMPANIES’ PROPOSAL FOR PHASING OUT THE LOAD FACTOR PROVISION, RIDER EDR (d)?

A. Like most of Rider EDR’s provisions, the load factor provision of that rider will expire on May 31, 2016 per the terms of the approved tariff. Rather than allowing the rider to expire on May 31, 2016, the Companies propose to phase the provision out over time by reducing the demand charge gradually over three years.

Q. PLEASE DESCRIBE IN MORE DETAIL THE PROPOSED MODIFICATIONS TO RIDER EDR (d).

A. Rider EDR (d), commonly referred to as “the load factor provision,” is applicable to all customers receiving service on the Companies’ General Service – Transmission (“Rate GT”) tariff. Currently there are 257 customers taking service on Rate GT. There are 188 Ohio Edison customers on rate GT, 15 Cleveland Electric Illuminating customers on Rate GT and 54 Toledo Edison customers on rate GT. The funding for this rider is self-contained because the rate is designed to ensure that all the dollars collected via a constant charge of $8.00 per kVA of billing demand are returned to Rate GT customers via the nonbypassable energy credits. These energy credits will vary based on the dollars collected under the demand charge. By design, this provision incents large customers to improve their load factor to mitigate or eliminate the impact of the demand charge. As the retail market has matured, the need for this additional price signal to improve load factor has been reduced. The majority of Rate GT customers are taking generation service from Competitive Retail Electric Service ("CRES") suppliers and the prices these customers pay those suppliers should reflect their unique load characteristics. Thus, there is no longer any need for or benefit provided by this provision. For this reason, the Companies propose to phase the load factor provision out over several years. Specifically, the Companies propose: effective June 1, 2016 the $8.00 charge per kVA of billing demand will be reduced to $6.00 per kVA of billing demand; effective June 1, 2017 the charge will be reduced to $4.00 per kVA of billing demand; and effective June 1, 2018, the charge will be reduced to $2.00 per kVA of billing demand. As the charge decreases over time the energy credit will also decrease due to the self-funding nature of the rate design.

Q. WHY DOES THE PIPP DISCOUNT EXPIRE ON MAY 31, 2016?

A. In the Companies' previous ESPs, the Commission adopted stipulations that provided that, to serve the load of the PIPP customers, FES would provide generation to the Companies at a discount to the Companies' otherwise applicable SSO price. Neither FES nor any other wholesale supplier has offered to extend this arrangement through the ESP IV period. Thus, the Companies cannot include a PIPP discount in the proposed ESP IV. The load of PIPP customers during the ESP IV period will be included in the competitive bid process for SSO load and commencing on June 1, 2016 will be served at the Generation Service Rider ("Rider GEN") rates charged to all SSO customers.

Q. ARE THE COMPANIES PROPOSING CHANGES TO OTHER RIDERS IN ADDITION TO RIDER EDR?

A. Yes. There are changes proposed to Rider AER and Rider GEN which are described in the testimony of Company witness Jurica. Company witness Savage describes proposed Rider GCR changes. Company witness Stein describes the proposed changes to Rider NMB. Changes are also proposed for Riders NDU, RGC, DSE and AMI.

Q. PLEASE DESCRIBE THE PROPOSED CHANGES TO RIDERS NDU, RGC, DSE AND AMI.

A. The changes to Riders NDU, RGC and DSE are not substantive changes, rather they are proposed to clarify the language or to remove inconsistencies that exist within a rider. The proposed changes to these riders are, in essence, "clean up" changes to improve the usability of the riders. These riders, in redline format to highlight the proposed changes, are contained in Attachment 5 to the Application. The proposed change to Rider AMI clarifies the types of advanced metering infrastructure and modern grid costs that may be eligible for recovery in this rider subject to Commission approval.

Q. WHAT ARE THE NEW RIDERS PROPOSED AS PART OF THE POWERING OHIO'S PROGRESS APPLICATION?

A. The Companies propose to introduce the following riders.

- A Retail Rate Stability Rider ("Rider RRS") as a component of the Companies' Economic Stability Program. Rider RRS is described in more detail in the testimony of Company witnesses Strah and Savage; and
- A Government Directives Recovery Rider ("Rider GDR") which I will describe in more detail.

Q. PLEASE DESCRIBE PROPOSED RIDER GDR.

A. The proposed Government Directives Recovery Rider ("Rider GDR") would permit timely recovery of future costs arising from implementation of programs required by legislative or governmental directives. The Companies do not currently have any costs to include in this cost recovery mechanism. Given the forward-looking nature of ESPs, however, it is appropriate to establish a cost recovery mechanism now for possible future charges which may be incurred as a result of legislative or governmental actions or directives over which the Companies have no control (particularly, with regard to the nature, magnitude, reasons or timing for incurring such costs). The proposed rider would allow all types of legislative or government-directed costs to be recovered in a timely, uniform and consistent manner subject to Commission review and approval.

Q. DO THE COMPANIES HAVE ANY EXAMPLES OF POTENTIAL EXPENDITURES THAT MAY BE RECOVERABLE THROUGH RIDER GDR?

A. Yes. Like many utilities across the country, the Companies may be required (by environmental regulations or agency order) to incur costs associated with investigation and remediation of former Manufactured Gas Plant ("MGP") sites in Ohio. The Companies are currently in the process of investigating certain former MGP sites to determine what, if any, remediation may be required. Costs, if any, associated with remediation of these sites would, subject to Commission approval, be recoverable under Rider GDR.

The Companies are also proposing to include in Rider GDR recovery of costs associated with implementation of directives arising from the RMI. Examples of these types of costs include costs associated with implementation of a supplier web portal and bill format changes described in the testimony of Company witness Smialek. The costs incurred as a result of the Commission-ordered Corporate Separation Audit would also be eligible for recovery in Rider GDR. These RMI-related directives are designed to benefit the competitive retail electric services market in Ohio.

The potential also exists that the Companies will be obligated to incur costs for distribution infrastructure protection, both physical and cyber security related, in the future. Regulators at the state and federal level are looking more closely at issues related to protecting the distribution infrastructure from threats to its safety, reliability and resiliency. At the federal level, the North American Electric Reliability Corporation ("NERC") has established several versions of cyber-security standards that have to-date in large measure focused on the bulk transmission system. It is not unreasonable to anticipate that NERC, or others, may issue directives aimed at distribution infrastructure protection sometime in the future. In Ohio, the Commission recently initiated an Ohio Critical Infrastructure Collaborative to address distribution infrastructure concerns. It is too early to ascertain what, if any, directives may come from such efforts.

This is not an exhaustive list of directives that could arise between now and the end of ESP IV but instead provides examples of the types of costs that could be recovered. Company witness McMillen describes the revenue requirement calculation and rate design methodologies for Rider GDR.

Q. WOULD THE COMPANY NOTIFY THE COMMISSION PRIOR TO SEEKING RECOVERY OF COSTS IN RIDER GDR?

A. Yes. If the Companies don't already have authority to defer costs for future recovery in Rider GDR, the Companies would make a filing seeking authority to defer and recover costs associated with government directives prior to including such costs for recovery in Rider GDR.

<u>RECOVERY OF PAYMENTS TO NET METERING GENERATORS</u>

Q. WHAT IS THE COMPANIES' PROPOSAL FOR RECOVERING THE PAYMENTS MADE TO NET GENERATORS IN RIDER NEM?

A. The Companies propose that payments for excess generation made to net metering customers be recovered in the Companies' nonbypassable Distribution Uncollectible Rider ("Rider DUN"). The amounts included for recovery in Rider DUN would reflect generation payments provided by the Companies to customers taking service under the Net Energy Metering Rider ("Rider NEM"). Under the Companies' Rider NEM, customer-generators receive a credit when their generation produces more kilowatt hours of electricity than the Companies supply to the customer-generator in a given billing period. The credits are based on the amount of net excess generation produced during the billing period multiplied by the energy charge component of the Companies' Rider GEN. The Companies have not been recovering these generation payments and, as a result, have been subsidizing the net metering customers to-date.

Q. WHY WOULD THESE PAYMENTS FOR EXCESS GENERATION BE RECOVERED IN A DISTRIBUTION RIDER?

A. The Companies sought recovery of these costs in Case No. 14-542-EL-RDR in Rider NMB. In that case, the Staff did not take exception to the amount sought for recovery, but asserted that net metering was a distribution service and consequently the generation payments should not be recovered through Rider NMB. The Commission, in Case No. 12-2050-EL-ORD, determined that net metering service is a non-competitive distribution service. Based on this direction, the Companies are seeking recovery of payments made to net generators taking service under the net energy metering tariff in the Companies' Rider DUN, the nonbypassable rider designed to collect otherwise uncollectible distribution related expenses.

<u>POWERING OHIO'S PROGRESS ADVANCES STATE POLICY</u>

Q. DOES THE POWERING OHIO'S PROGRESS PLAN SUPPORT STATE POLICY AND BENEFIT CUSTOMERS?

A. Yes, it does. Powering Ohio's Progress, when viewed as a package, is designed to ensure the availability of adequate, reliable, safe, nondiscriminatory and reasonably priced retail electric service for our customers. The proposed ESP IV includes numerous commitments and programs that benefit customers over the term of ESP IV and into the future by: (1) helping to stabilize customer rates; (2) promoting competitive markets; and (3) supporting economic development and job retention in Ohio. More specifically, customers will benefit because the proposed ESP IV supports competition at both the wholesale and retail levels. Further, the Economic Stability Program is designed to provide customers greater assurance of adequate reliable electric service at reasonable, more stable prices over the near and longer term. The Economic Stability Program also supports economic development, job retention, fuel diversity, continued operation of a zero carbon resource, maintains tax base and avoids the potential for additional transmission expenditures. The continuation of Rider DCR, along with Rider GDR, provide greater distribution infrastructure protection and provide the means for the Companies to make necessary infrastructure investments in the delivery systems. This should increase assurance that the distribution system will continue to provide safe and reliable electric service over the term of ESP IV and beyond. In addition, ESP IV includes provisions to assist our low income customers and to support economic development in the service territories of our Companies. All customers are benefited from a commitment not to raise base distribution rates during the term of ESP IV. As proposed, ESP IV also includes several retail market enhancement provisions designed to benefit all customers of the Companies through supporting the competitive retail electric service market in Ohio. These provisions and others (described in greater detail by the Companies' witnesses) as a package, support state policy and benefit our customers and the State of Ohio during the term of ESP IV and into the future.

Q. ARE YOU FAMILIAR WITH THE STATE POLICIES THAT THE COMMISSION HAS REFERRED TO IN PAST SSO CASES IN ITS REVEW OF PROPOSED ESPS?

A. Yes. Those state policies are listed in Ohio Revised Code Section 4928.02.

Q. WILL POWERING OHIO'S PROGRESS FURTHER THOSE POLICIES?

A. Yes, as with the Companies' current and prior ESPs, the Powering Ohio's Progress plan will provide customers with reasonably priced electricity because, regardless of whether a customer shops or not, the customer will receive retail electric service based on market prices. Non-shopping customers will pay for retail electric service based on a series of competitive bidding processes ("CBPs") that will use the same rules and processes that have proved to have been very successful. The CBPs to acquire SSO load embody a process that is competitive, fair and open. The CBPs will be implemented by an unquestionably independent and qualified auction manager, CRA International. The CBPs will also be scrutinized by another set of experts – a Commission-retained auction monitor.

The CBPs will be conducted under a preapproved set of rules, including Bidding Rules and Communication Protocols, all designed to prevent any participant in the CBP from gaining any advantage over any other participant. CRA International will also review bidder applications for the potential for collusion or improper conduct. The CBP rules also set forth the specifics of the products to be bid on during the auction. Further, the prices that non-shopping customers will pay will be based on laddered procurements and blended prices that will mitigate but not eliminate the effects of the inevitable volatility in the market prices.

ESP IV, like the Companies' current ESP, will also provide stable rates. As the Companies have done in their prior ESPs, the Companies will commit in ESP IV not to raise base distribution rates during the term of the ESP. In addition, the Economic Stability Program will help provide stability for retail pricing by mitigating the impact of volatile retail market prices and increasing retail market prices over a fifteen-year term for all of the Companies' customers.

Also like its predecessors, ESP IV will promote reliable electric service. The Companies will be able to continue to fund enhancements to their distribution systems through revenues collected under Rider DCR. The ability of the Companies to defer storm-related costs also promotes reliability by allowing the Companies an opportunity to seek recovery of such costs. The Economic Stability Program will further support the availability of fuel diverse baseload generation in this region. Baseload power plants like Davis-Besse and Sammis are critical to our region's economic vitality and security.

The success of the competitive balance provided by the Companies' current and previous ESPs is shown by the fact that shopping rates in the Companies' territories are the highest in the state. The underlying factors that led to this level of shopping will continue to be present in ESP IV. There can be no serious dispute that the Companies' customers have and will continue to be able to avail themselves of a variety of suppliers of retail electric service. The Companies will also continue to work with CRES providers towards making customer information available in a timely fashion and usable format. (Company witness Smialek details the retail market enhancements.) ESP IV would eliminate minimum stay restrictions and notice requirements from our Electric Service Regulations and contains no other rules that might discourage residential or commercial shopping. The Companies will also continue to offer net metering.

Through the proposed Powering Ohio's Progress plan and elsewhere, the Companies have committed to assist with energy efficiency, advanced metering and Smart Grid programs and to comply with alternative energy resource procurement requirements. The Companies will also commit to support economic development and job retention efforts or energy efficiency by providing funding of up to $1 million per year.

In addition, Powering Ohio's Progress will benefit "at risk" populations to the same extent that all other customers will benefit. Customers will enjoy reliable power at market-based prices, regardless of whether they shop. There are no provisions in ESP IV that would prohibit competition in the wholesale and retail markets from continuing to flourish. All customers, including "at risk" customers, will benefit from the Economic Stability Program and in particular the retail rate stability it provides. They will have the benefit of a continued base distribution rate freeze. Additionally, and more specifically, the Companies will also continue their commitment to support programs that assist low income customers by continuing the Community Connections funding at $5 million per year.

Ohio's economy is well served with Powering Ohio's Progress plan that offers competitive but stable pricing for electric service. It is also well served by having distribution companies that can deliver such service safely and reliably. ESP IV will allow customers in the Companies' service territories to enjoy these benefits. The Companies' customers have enjoyed state-leading levels of shopping and reliability under the current and prior ESPs. Powering Ohio's Progress should provide similar and enhanced results.

Q. DOES THE PROPOSED ESP IV SUPPORT LARGE SCALE GOVERNMENTAL AGGREGATION?

A. Yes. The Companies' service territories have experienced robust governmental aggregation activities, the most in the state. The proposed ESP IV contains no provisions designed to limit or discourage government aggregation. Indeed, none of the changes proposed in ESP IV should have any negative effect on governmental aggregation. In fact, proposed modifications to the Companies' Electric Service Regulations and our proposed retail market enhancements, discussed in the testimony of Company witness Smialek, benefit governmental aggregation along with all of our other customers.

Q. AS PROPOSED, IS THE POWERING OHIO'S PROGRESS PLAN REASONABLE?

A. Yes. The Companies' proposed ESP IV balances customer, shareholder and state-wide public interests by offering a plan that is more favorable in the aggregate than would be expected under an MRO. Company witness Fanelli provides the support for this conclusion in his testimony.

<u>CONCLUSION</u>

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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