

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

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**DIRECT TESTIMONY OF**

**BRANDON S. MCMILLEN**

**ON BEHALF OF**

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

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**AUGUST 4, 2014**

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.**

3 A. My name is Brandon S. McMillen and I am an Analyst in the Rates and Regulatory Affairs  
4 Department – Ohio of FirstEnergy Service Company. My business address is 76 South  
5 Main Street, Akron, Ohio 44308.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
7 **PROFESSIONAL QUALIFICATIONS.**

8 A. I received a Bachelor of Science degree in Mathematics from University of Mount Union  
9 (formerly, Mount Union College) and a Master of Science degree in Mathematics from  
10 Youngstown State University. I have been employed by FirstEnergy Service Company  
11 since 2012.

12 **Q. WHAT ARE YOUR CURRENT JOB DUTIES AND AREAS OF**  
13 **RESPONSIBILITY?**

14 A. My current responsibilities include serving as the lead analyst for preparation of various  
15 riders for Ohio Edison Company (“Ohio Edison”), The Cleveland Electric Illuminating  
16 Company (“CEI”) and The Toledo Edison Company (“Toledo Edison”) (collectively, the  
17 “Companies”) and conducting various research and analysis for the Ohio Rate Department.

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

19 A. The purpose of my testimony in this proceeding is to provide a description of the timing,  
20 revenue requirement calculation, and rate design for the proposed Government Directives  
21 Recovery Rider (“Rider GDR”).

1 **RIDER GDR**

2 **Q. HOW OFTEN WILL RIDER GDR BE UPDATED?**

3 A. Rider GDR will be updated and reconciled on a semi-annual basis. The initial Rider GDR  
4 charge will go into effect at the start of the Companies' fourth electric security plan entitled  
5 Powering Ohio's Progress (also referred to as "ESP IV") on June 1, 2016. Thereafter, no  
6 later than December 1 and June 1 of each year, the Companies will file updated Rider GDR  
7 tariff rates for the upcoming recovery period. Unless otherwise ordered by the  
8 Commission, the tariff rates will become effective on the subsequent January 1 and July 1,  
9 respectively. Please see Attachment 4 to the Companies' Application for a copy of the  
10 proposed Rider GDR tariff page.

11 **Q. HOW WILL THE REVENUE REQUIREMENT FOR RIDER GDR BE**  
12 **DETERMINED?**

13 A. The Rider GDR revenue requirement will be based on actual costs incurred and not yet  
14 recovered including capital costs, non-capital costs, the cumulative regulatory asset or  
15 liability balance, and applicable taxes. The revenue requirement for capital costs will  
16 include a return on and of plant in service and accumulated deferred income tax balances  
17 based on the weighted average cost of capital from the Companies' most recent base  
18 distribution rate case, and associated taxes. The revenue requirement for non-capital costs  
19 will reflect actual costs incurred. The initial Rider GDR rates to be effective on June 1,  
20 2016 will be based on actual costs incurred to date. Thereafter, the actual costs incurred  
21 over the most recent six months will be included in the revenue requirement. Please see  
22 Attachment BSM-1 for an example of the revenue requirement calculation for Rider GDR.

1 **Q. HOW WILL THE REVENUES AND EXPENSES ASSOCIATED WITH RIDER**  
2 **GDR BE CALCULATED AND RECORDED ON THE COMPANIES' BOOKS?**

3 A. Each month the Companies will compare their actual capital related expenses and non-  
4 capital costs to the actual Rider GDR revenue. The monthly under or over collection will  
5 be recorded as a regulatory asset or liability on the Companies' books for future recovery  
6 or return to customers. The cumulative actual regulatory asset or liability balance,  
7 including applicable carrying charges, will be included in the Rider GDR revenue  
8 requirement calculation for each Company as described above. Carrying costs will accrue  
9 on any under or over collection of Rider GDR using the Companies' current embedded  
10 cost of long-term debt.

11 **Q. HOW WILL COSTS BE RECOVERED IN RIDER GDR?**

12 A. Rider GDR will be a nonbypassable rider charged on a per customer basis. The revenue  
13 requirement will be allocated among rate schedules using the stipulated revenue  
14 distribution from the Companies' most recent distribution rate case, Case No. 07-551-EL-  
15 AIR. Each rate schedule's allocated revenue requirement will then be converted to a  
16 monthly customer charge based on the estimated number of customers for the upcoming  
17 recovery period. An illustrative calculation of the Rider GDR revenue requirement and  
18 rate design is shown in Attachment BSM-1 attached to my testimony.

19 **Q. IS THE PROPOSED RATE DESIGN FOR RIDER GDR REASONABLE?**

20 A. Yes. In light of the nature of the types of costs that the Companies anticipate may be  
21 included in Rider GDR, and the treatment of similar costs in other regulatory proceedings,  
22 the proposed rate design is reasonable. As discussed in the testimony of Company witness  
23 Mikkelsen, while the Companies do not have estimates for costs to be recovered through

1 Rider GDR, examples of the types of costs to be potentially be included are: (1) costs  
2 associated with environmental remediation of former manufactured gas plant sites; (2)  
3 costs associated with implementation of directives arising from the Retail Market  
4 Investigation; and (3) costs for distribution infrastructure protection, both physical and  
5 cyber security related. Based on these examples, anticipated costs are largely associated  
6 with the distribution system or have been associated with distribution rates in prior  
7 regulatory proceedings.<sup>1</sup> Therefore, use of the distribution revenue allocation factors from  
8 the Companies' most recent base distribution case is reasonable. Further, given that Rider  
9 GDR will recover costs incurred as a result of governmental directives over which the  
10 Companies have no control, recovering such costs through a monthly customer charge is  
11 also reasonable. The nature of the types of costs potentially to be included in Rider GDR,  
12 including costs associated with individual customer billing, data protection and safety, as  
13 well as costs which have been approved on a per customer basis in prior regulatory  
14 proceedings,<sup>2</sup> further supports this rate design methodology.

15 **Q. ARE THE COSTS INCLUDED FOR RECOVERY UNDER RIDER GDR BEING**  
16 **RECOVERED ELSEWHERE?**

17 A. No, costs included for recovery in Rider GDR would be tracked separately and are  
18 incremental to costs being recovered elsewhere.

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<sup>1</sup> See the following: (1) Entry on Rehearing in Case No. 12-3151-EL-COI, dated March 21, 2014, pp. 10-11; (2) Entry on Rehearing in Case No. 12-1685-EL-AIR, dated January 8, 2014, pp. 9-10; and (3) Finding and Order in Case No. 12-0426-EL-SSO, dated September 4, 2013, pg. 35.

<sup>2</sup> See Commission Entry dated February 19, 2014 in Case No. 12-1685-EL-AIR. Case is currently pending in Supreme Court of Ohio Case No. 14-0328.

1    **CONCLUSION**

2    **Q.     DOES THIS CONCLUDE YOUR TESTIMONY?**

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

Calculation of Government Directives Recovery Rider ("Rider GDR")					
<b>I. Revenue Requirement Calculation</b>					
<u>Line</u>		<u>CEI</u>	<u>OE</u>	<u>TE</u>	<u>Source</u>
	<b>Capital Costs</b>				
1	Gross Plant In-Service	\$	\$	\$	
2	Reserve for Depreciation	\$	\$	\$	=Line 1 - Line 2
3	Net Plant In-Service	\$	\$	\$	
4	Accumulated Deferred Income Tax	\$	\$	\$	
5	Rate Base	\$	\$	\$	=Line 3 - Line 4
6	Rate of Return (Pre-Tax)	%	%	%	
7	Return on Rate Base	\$	\$	\$	=Line 5 x Line 6
8	Depreciation Expense	\$	\$	\$	
9	Property Tax Expense	\$	\$	\$	
10	<b>Subtotal - Capital Costs</b>	\$	\$	\$	=Line 7 + Line 8 + Line 9
11	<b>Non-Capital Costs</b>	\$	\$	\$	
12	<b>Subtotal - Capital &amp; Non-Capital Costs</b>	\$	\$	\$	=Line 10 + Line 11
13	Over/(Under) Deferral	\$	\$	\$	
14	Revenue Requirement excluding CAT	\$	\$	\$	=Line 12 + Line 13
15	<b>CAT Rate</b>	%	%	%	
16	<b>Revenue Requirement</b>	\$	\$	\$	= Line 14 / (1 - Line 15)
<u>Line</u>	<b>II. Allocation Factors</b>	<u>CEI</u>	<u>OE</u>	<u>TE</u>	<u>Source</u>
17	Rate RS	47.55%	62.45%	57.93%	Stipulation in Case No. 07-551-EL-AIR.
18	Rate GS	42.23%	27.10%	32.13%	
19	Rate GP	0.63%	5.20%	4.80%	
20	Rate GSU	4.06%	0.85%	0.11%	
21	Rate GT	0.18%	2.19%	1.38%	
22	Rate STL	3.53%	1.39%	2.91%	
23	Rate POL	1.79%	0.76%	0.69%	
24	Rate TRF	0.03%	0.06%	0.05%	
25	<b>Total</b>	100.00%	100.00%	100.00%	
<u>Line</u>	<b>III. Allocated Revenue Requirement</b>	<u>CEI</u>	<u>OE</u>	<u>TE</u>	<u>Source</u>
26	Rate RS	\$	\$	\$	= Line 16 x Line 17
27	Rate GS	\$	\$	\$	= Line 16 x Line 18
28	Rate GP	\$	\$	\$	= Line 16 x Line 19
29	Rate GSU	\$	\$	\$	= Line 16 x Line 20
30	Rate GT	\$	\$	\$	= Line 16 x Line 21
31	Rate STL	\$	\$	\$	= Line 16 x Line 22
32	Rate POL	\$	\$	\$	= Line 16 x Line 23
33	Rate TRF	\$	\$	\$	= Line 16 x Line 24
34	<b>Total</b>	\$	\$	\$	= Line 16 x Line 25
<u>Line</u>	<b>IV. Estimated Number of Customers</b>	<u>CEI</u>	<u>OE</u>	<u>TE</u>	<u>Source</u>
35	Rate RS	#	#	#	
36	Rate GS	#	#	#	
37	Rate GP	#	#	#	
38	Rate GSU	#	#	#	
39	Rate GT	#	#	#	
40	Rate STL	#	#	#	
41	Rate POL	#	#	#	
42	Rate TRF	#	#	#	
43	<b>Total</b>	#	#	#	
<u>Line</u>	<b>V. Rider GDR Rate (\$ / customer)</b>	<u>CEI</u>	<u>OE</u>	<u>TE</u>	<u>Source</u>
44	Rate RS	\$	\$	\$	= Line 26 / Line 35
45	Rate GS	\$	\$	\$	= Line 26 / Line 36
46	Rate GP	\$	\$	\$	= Line 26 / Line 37
47	Rate GSU	\$	\$	\$	= Line 26 / Line 38
48	Rate GT	\$	\$	\$	= Line 26 / Line 39
49	Rate STL	\$	\$	\$	= Line 26 / Line 40
50	Rate POL	\$	\$	\$	= Line 26 / Line 41
51	Rate TRF	\$	\$	\$	= Line 26 / Line 42
52	<b>Total</b>	\$	\$	\$	= Line 26 / Line 43

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Summary: Testimony (Direct) of Brandon S. McMillen electronically filed by Ms. Tamera J Singleton on behalf of Ohio Edison Company and The Cleveland Electric Illuminating Company and The Toledo Edison Company