

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

DIRECT TESTIMONY OF

JASON LISOWSKI

ON BEHALF OF

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

AUGUST 4, 2014

PUBLIC VERSION

1 **INTRODUCTION**

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

3 A. My name is Jason Lisowski. I am employed by FirstEnergy Service Company as the
4 Assistant Controller – FES/FEG at FirstEnergy Solutions Corp. (“FES”). My business
5 address is 341 White Pond Dr., Akron, OH 44320.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL EXPERIENCE, PROFESSIONAL**
7 **QUALIFICATIONS, AND EMPLOYMENT EXPERIENCE.**

8 A. I earned a Bachelor of Science degree in Corporate Finance from the University of Akron
9 in 2004, and a Masters in Business Administration from the University of Akron in 2006.
10 I am also a Certified Public Accountant in Ohio and a Certified Management Accountant.
11 I joined FirstEnergy Service Company in 2004 as an Accountant in the Financial
12 Reporting Department. In 2009, I became an Analyst in the Treasury Department. In
13 2010, I was promoted to the Manager of Budgeting and Forecasting. In 2011, I became
14 the Manager of Financial Reporting and Technical Accounting and was promoted to my
15 current position in 2012.
16 In my current position, I am responsible for all accounting and financial reporting related
17 matters associated with FES, its generation plants, and generation business budgeting. I
18 also actively participate with the FES and generation business executive management and
19 leadership teams on financial, accounting, and forecasting/planning matters.

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 A. The purpose of my testimony is to provide and support the cost information related to the
22 output proposed to be sold to Ohio Edison Company, The Cleveland Electric Illuminating
23 Company, and The Toledo Edison Company (collectively, the “Companies”) from FES’s

1 interest in Ohio Valley Electric Corporation (“OVEC”), the Davis-Besse Nuclear Power
2 Station (“Davis-Besse”) and the W.H. Sammis Plant (“Sammis”) (collectively, the
3 “Plants”). I then calculate the projected revenues which will be created by the output of
4 the Plants. These projections use: (1) the market price estimates provided by Company
5 witness Rose; and (2) proprietary modeling software which is regularly used by FES to
6 prepare long-term projections in its regular course of business.

7 **Q. WHAT DID YOU USE AS THE BASIS FOR YOUR COST ESTIMATES?**

8 A. I used the categories of costs proposed to be included in the transaction between the
9 Companies and FES as the starting point for the cost estimates contained in this
10 testimony. I then used the FES internal cost projections, Company witness Rose’s
11 market price estimates, and the proprietary dispatch modeling software to project the
12 amounts of the applicable costs.

13 **Q. HAVE YOU PREPARED ANY ATTACHMENTS TO SHOW HOW THE**
14 **REVENUE REQUIREMENTS FOR THE COSTS ASSOCIATED WITH THE**
15 **PROPOSED TRANSACTION WERE DETERMINED?**

16 A. Yes. I have created the following Confidential Attachments:

- 17 • JIL-1: Sammis Projections;
- 18 • JIL-2: Davis-Besse Projections; and
- 19 • JIL-3: OVEC Projections.

1 **COST PROJECTIONS**

2 **Q. ARE YOU FAMILIAR WITH THE CATEGORIES OF COSTS INCLUDED IN**
3 **THE REVENUE REQUIREMENTS?**

4 A. Yes. In the regular course of its business, FES tracks and records these categories of
5 costs. FES also regularly projects these costs by plant.

6 **Q. HAVE YOU INCLUDED THE MOST RECENT COST DATA FOR EACH**
7 **PLANT?**

8 A. Yes. For starting balances for net book value and similar cost items, the confidential
9 attachments to this testimony use the most recent cost data for each of the Plants as
10 recorded by FES. These starting balances are regularly recorded based on generally
11 accepted accounting principles.

12 **Q. DO YOUR ATTACHMENTS INCORPORATE PROJECTED COSTS**
13 **THROUGHOUT THE PROPOSED PERIOD?**

14 A. Yes. For future costs, including Operation and Maintenance (“O&M”) expenses and
15 capital expenditures, my Attachments use FES internal cost projections for the Plants.
16 These internal FES cost projections are made and kept in the regular course of operations
17 for the Plants. Cost forecasts for O&M and capital are derived from a base level of
18 maintenance and operation levels and forecasted outage schedules based on assumptions
19 coordinated with the fossil and nuclear operations and also reflect the output of fuel and
20 variable O&M costs associated with the dispatch model.

1 **Q. HOW DOES YOUR ANALYSIS INCORPORATE PROJECTED COSTS AND**
2 **REVENUES FOR THE OVEC FACILITY?**

3 A. FES receives a 20-year forecast from OVEC. This forecast, which is prepared as part of
4 the regular operations of OVEC, includes cost projections for fuel, O&M, and capital. I
5 have used OVEC's 20-year forecast of cost projections to prepare the OVEC projections
6 in Confidential Attachment JIL-3. The dispatch modeling system was used to project the
7 amount of generation and revenue OVEC would produce based on the energy price
8 projections provided by Company witness Rose.

9 **REVENUE PROJECTIONS**

10 **Q. HAVE YOU ESTIMATED THE REVENUE EXPECTED TO BE CREATED BY**
11 **EACH PLANT?**

12 A. Yes. I used a dispatch modeling system to project how the Plants will be dispatched
13 economically and the amount of energy revenues that will be generated by each of the
14 Plants. The dispatch modeling system uses inputs such as fuel costs, operating
15 parameters (Equivalent Forced Outage Rates ("EFOR"), planned outages, etc.), emission
16 allowances, and power prices. I also estimated the annual capacity and ancillary services
17 revenues associated with each of the Plants for the fifteen-year period between June 1,
18 2016 and May 31, 2031.

19 **Q. WHERE DID YOU OBTAIN THE INPUTS YOU USED TO PROJECT**
20 **REVENUES AND COSTS?**

21 A. Company witness Rose provided future energy prices based on the ATSI zone and basis
22 spread adjustments for each Plant's node. For Sammis, the inputs for coal, coal
23 transportation prices and emission allowances were provided by Company witness Rose.

1 Nuclear fuel and other fuel-related expenses (such as fuel reagents) were forecasted using
2 internal forecasts that are based on actual expenses incurred by the Plants and adjusted in
3 future years for inflation. OVEC's variable fuel costs were provided by OVEC.
4 Operating parameters, such as EFOR and planned outages, were developed in
5 coordination with the fossil and nuclear operations departments. Capacity revenues were
6 based on actual clearing prices of units in the PJM Base Residual Auction through
7 planning year 2017-18. For planning years after 2017-18, capacity revenues were based
8 on the market price forecast provided by Company witness Rose. Ancillary revenues
9 attributed to these Plants were based on the actual historical revenues for the Plants and
10 adjusted for inflation.

11 **Q. PLEASE DESCRIBE HOW THE FORECASTING MODEL WORKS.**

12 A. The forecasting model is a proprietary monthly dispatch model that incorporates financial
13 and operational inputs to produce a projection of how the Plants would operate and the
14 amount of generation they would produce under those circumstances. The model
15 incorporates the generation capabilities of each FES generation facility, adjusted for an
16 assumed unavailability and forced loss (EFOR, etc.), and planned outages. Based on the
17 forecasted energy prices provided by Company witness Rose, the forecasting model
18 generates a projection of when the Plants will be operating, at what level of capacity, the
19 amount of energy revenues the Plants will be earning during those periods of time, and
20 the costs incurred as a result of generating those revenues. For years where capacity is
21 not a known value, capacity revenues were projected by using the market price forecast
22 for capacity provided by Company witness Rose and FES's EFOR and Unforced
23 Capacity ("UCAP") assumptions of the Plants.

1 **CONCLUSION**

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

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

Attachment JIL -1: Sammis Projections
\$ in millions

Line	Regulatory Assumptions	
A	ROE	11.15%
B	Effective Tax Rate	37.44%
C	Assumed Debt %	50.00%
D	Assumed Equity %	50.00%
E	Cost of Long-term Debt	4.54%
F	WACC	7.85%

Line	Revenues	2016 (Jun-Dec)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031 (Jan-May)
1	Capacity Revenue																
2	Energy Revenue																
3	Ancillary Revenue																
4	Total Revenues																
5																	
6	Costs																
7	Fuel																
8	Labor																
9	Dues, Fees, & Licenses																
10	Lease/Rental Costs																
11	General Business & Travel																
12	Materials & Equipment																
13	Professional & Contractor																
14	Pension & OPEB																
15	Service Company Expense																
16	Property Taxes																
17	Insurance																
18	General Taxes																
19	Depreciation																
20	Accretion Expense																
21	Total Costs																
22																	
23	Interest Expense																
24	Equity Return																
25	Income Taxes																
26	Total Return																
27																	
28	Total Costs & Return																
29																	
30	Seller's Invested Capital																
31	Net Plant In Service																
32	Accumulated Deferred Income Taxes																
33	Service Company Net Plant Allocations																
34	Fleet Corporate Support Net Plant																
35	Capitalized Fuel																
36	Non-Fuel Materials & Supplies																
37	Total Seller's Invested Capital																

Footnotes:
Line A,C,D Provided by Company witness Steve Staub
Line B Estimated FES Tax Rate
Line E Weighted average cost of FES' Long term debt
Line F Calculation: Line A * Line D + Line C * Line E
Line 1-3 JIL Workpaper Sammis
Line 4 Calculation: ∑ Line 1 thru 3
Line 7-20 JIL Workpaper Sammis
Line 21 Calculation: ∑ Line 7 thru 20
Line 23 Calculation: Line 37 * Line C * Line E (to account for the partial year; Year 2016 *7/12 and Year 2031 *5/12)
Line 24 Calculation: Line 37 * Line A * Line D (to account for the partial year; Year 2016 *7/12 and Year 2031 *5/12)
Line 25 Calculation: Line 24*(1/(1-Line B))-1
Line 26 Calculation: ∑ Line 23 thru 25
Line 28 Calculation: ∑ Line 21, Line 26
Line 31 JIL Workpaper Sammis; represents an estimated December 31 balance, with the exception of 2031 which represents an estimated May 31 balance.
Line 32-36 JIL Workpaper Sammis
Line 37 Calculation: ∑ Line 31 thru 36

Attachment JIL -2: Davis Besse Projections

\$ in millions

Line	Regulatory Assumptions	
A	ROE	11.15%
B	Effective Tax Rate	37.44%
C	Assumed Debt %	50.00%
D	Assumed Equity %	50.00%
E	Cost of Long-term Debt	4.54%
F	WACC	7.85%

Line	Revenues	2016 (Jun-Dec)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031 (Jan-May)
1	Capacity Revenue																
2	Energy Revenue																
3	Ancillary Revenue																
4	Total Revenues																
5																	
6	Costs																
7	Fuel																
8	Labor																
9	Dues, Fees, & Licenses																
10	Lease/Rental Costs																
11	General Business & Travel																
12	Materials & Equipment																
13	Professional & Contractor																
14	Pension & OPEB																
15	Service Company Expense																
16	Property Taxes																
17	Insurance																
18	General Taxes																
19	Depreciation																
20	Accretion Expense																
21	Total Costs																
22																	
23	Interest Expense																
24	Equity Return																
25	Income Taxes																
26	Total Return																
27																	
28	Total Costs & Return																
29																	
30	Seller's Invested Capital																
31	Net Plant In Service																
32	Accumulated Deferred Income Taxes																
33	Service Company Net Plant Allocations																
34	Fleet Corporate Support Net Plant																
35	Capitalized Fuel																
36	Non-Fuel Materials & Supplies																
37	Total Seller's Invested Capital																

Footnotes:

Line A,C,D	Provided by Company witness Steve Staub
Line B	Estimated FES Tax Rate
Line E	Weighted average cost of FES' Long term debt
Line F	Calculation: Line A * Line D + Line C * Line E
Line 1-3	JIL Workpaper Davis Besse
Line 4	Calculation: \sum Line 1 thru 3
Line 7-20	JIL Workpaper Davis Besse
Line 21	Calculation: \sum Line 7 thru 20
Line 23	Calculation: Line 37 * Line C * Line E (to account for the partial year; Year 2016 *7/12 and Year 2031 *5/12)
Line 24	Calculation: Line 37 * Line A * Line D (to account for the partial year; Year 2016 *7/12 and Year 2031 *5/12)
Line 25	Calculation: Line 24*(1/(1-Line B))-1
Line 26	Calculation: \sum Line 23 thru 25
Line 28	Calculation: \sum Line 21, Line 26
Line 31	JIL Workpaper Davis Besse; represents an estimated December 31 balance, with the exception of 2031 which represents an estimated May 31 balance.
Line 32-36	JIL Workpaper Davis Besse
Line 37	Calculation: \sum Line 31 thru 36

Attachment JIL -3: OVEC Projections
\$ in millions

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
		(Jun-Dec)															(Jan-May)
Line	Revenues																
1	Capacity Revenue																
2	Energy Revenue																
3	Total Revenues																
4																	
5	Costs																
6	Fuel																
7	Operating Expenses																
8	Total Costs																

Footnotes:
Line 1-2 JIL Workpaper OVEC
Line 3 Calculation: Σ Line 1, Line 2
Line 6-7 JIL Workpaper OVEC
Line 8 Calculation: Σ Line 6, Line 7

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