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Ohio | **Public Utilities Commission**

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June 10, 2015

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

RE: *In the Matter of the Review of the Non-Market Based Services Rider contained in the Tariffs of Ohio Edison, The Cleveland Electric Illuminating Company and The Toledo Edison Company, Case No. 15-648-EL-RDR*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the application filed by Ohio Edison, The Cleveland Electric Illuminating Company and The Toledo Edison Company to update its Non-Market Based Services Rider, in Case No. 15-648-EL-RDR.

Tamara S. Turkenton
Chief, Regulatory Services Division
Public Utilities Commission of Ohio

David Lipthratt
Chief, Research and Policy Division
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

Cleveland Electric Illuminating Company
Ohio Edison Company
Toledo Edison Company

Case No. 15-648-EL-RDR (NMB)

Overview

On May 1, 2015, The Cleveland Electric Illuminating Company, Ohio Edison Company and The Toledo Edison Company (FirstEnergy) filed their application to update its Non-Market-Based Services Rider (NMB). The NMB is a non-bypassable rider. It is designed to recover non-market based transmission-related costs, such as Network Integration Transmission Service (NITS) charges, imposed on or charged to the Company by the Federal Energy Regulatory Commission (FERC) or PJM.

The NMB rider has generally been updated on an annual basis for rates effective July 1 through June 30 each year. However, the current rates were approved on January 28, 2015 in Case No. 14-542-EL-RDR pursuant to FirstEnergy's interim filing update. FirstEnergy filed the interim rate adjustment to avoid significant under-recovery of NITS charges and associated carrying costs resulting from FERC decisions in Docket Nos. ER15-303 and EL11-54, in which FERC approved changes to the NITS formula rate beginning January 1, 2015.

In its May 1, 2015 application, FirstEnergy proposes to better align the NMB rider recovery period with when the associated expenses are incurred by making their next filing no later than January 15, 2016 with rates to become effective no later than 75 days following the filing of the application. Therefore, the NMB rider could be updated on an annual basis for rates effective April 1 through March 31 each year.

Staff Review

Staff reviewed the May 1, 2015 application. Staff's investigation was designed to ensure that FirstEnergy's policies and practices comport with sound ratemaking principles and Commission policies, confirm that its books and records are reliable sources of cost data, and ultimately determine if the application is just and reasonable.

Based on that investigation, Staff concludes that the proposed NMB rates reflect the current and projected costs through June 30, 2016. Staff supports FirstEnergy's proposal to better align the NMB rider's recovery period with its expenses.

Staff recognizes that FirstEnergy has applied the annual embedded cost of long-term debt to calculate the reconciliation of under and over-recovered costs in prior NMB rider cases, specifically Case Nos. 13-812-EL-RDR and 14-542-EL-RDR. However, due to timing differences these rates are challenging to verify, and Staff has continuing concerns about the understandability of calculating the embedded cost of long term debt. Further, the Commission's practice is to apply the latest approved cost of long term debt from the last rate case. Therefore, Staff recommends that FirstEnergy applies the cost of long term debt approved in Case No. 07-

551-EL-AIR, which is 6.22% consolidated for the FirstEnergy Companies, rather than the annual embedded cost of long term debt on a going forward basis.

Conclusion

Staff recommends that FirstEnergy's application filed on May 1, 2015 be approved for rates effective July 1, 2015.