

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 )

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**REHEARING TESTIMONY OF**

**EILEEN M. MIKKELSEN**

**ON BEHALF OF**

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

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**MAY 2, 2016**

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

2 A. My name is Eileen M. Mikkelsen. I am employed by FirstEnergy Service Company as the  
3 Vice President of Rates and Regulatory Affairs. I am responsible for rate and regulatory  
4 activities for all of FirstEnergy’s utility subsidiaries, including Ohio Edison Company  
5 (“Ohio Edison”), The Cleveland Electric Illuminating Company (“CEI”) and The Toledo  
6 Edison Company (“Toledo Edison”) (collectively, the “Companies”). My business address  
7 is 76 South Main Street, Akron, Ohio 44308.

8 **Q. ARE YOU THE SAME EILEEN MIKKELSEN WHO PREVIOUSLY PROVIDED**  
9 **TESTIMONY IN THIS PROCEEDING?**

10 A. Yes. I provided Direct Testimony on August 4, 2014, Supplemental Testimony on  
11 December 22, 2014, Second Supplemental Testimony on May 4, 2015, Third Supplemental  
12 Testimony on June 2, 2015, Fourth Supplemental Testimony on June 4, 2015, Rebuttal  
13 Testimony on October 19, 2015, and Fifth Supplemental Testimony on December 1, 2015.

14 **Q. WHAT IS THE PURPOSE OF YOUR REHEARING TESTIMONY IN THIS**  
15 **PROCEEDING?**

16 A. The purpose of this testimony is to support the Companies’ modifications to the calculation  
17 of the costs and revenues that flow through the Retail Rate Stability Rider (“Rider RRS”).  
18 The proposed modifications benefit customers while eliminating any associated risk with  
19 tying Rider RRS to the results of a purchase power agreement (the “Proposal”). In this  
20 testimony, I will describe the Companies’ Proposal as well as explain why the Stipulated  
21 Electric Security Plan (“ESP”) IV as previously approved by the Commission, as modified  
22 by the Companies’ Proposal contained herein, does not change any of the provisions the  
23 Commission relied upon when making its determination with respect to the stipulations

1 and the statutory ESP v. Market Rate Offer (“MRO”) test and continues to meet all of the  
2 objectives identified in the Commission’s Order. In fact, given that the Proposal was  
3 designed to accord in large measure with the prior Rider RRS combined with the fact that  
4 the Commission has approved all other aspects of Stipulated ESP IV, we believe this can  
5 and should be a very accelerated and straightforward process in order to timely provide the  
6 contemplated benefits commencing June 1, 2016.

7 **Q. WHY ARE THE COMPANIES MAKING THIS PROPOSAL?**

8 A. Since filing the ESP IV on August 4, 2014, the Companies and interested stakeholders have  
9 worked tirelessly to adopt an electric security plan that provides retail customers the  
10 benefits of favorable market-based generation pricing while protecting those customers  
11 against the risk of increasing and more volatile retail prices. During the course of an  
12 extraordinarily lengthy, thorough, and exhaustive evidentiary process, the Companies  
13 worked together with many interested stakeholders to reach agreement on Stipulated ESP  
14 IV, which the Commission approved, with modifications, on March 31, 2016 (the “Order”).  
15 Stipulated ESP IV, as approved by the Commission, provides numerous wide-ranging  
16 quantitative and qualitative benefits for the Companies’ customers, including that it will  
17 protect consumers against rate volatility, price fluctuations, and long-term retail price  
18 increases by promoting rate stability for all customers in this state, modernize the grid  
19 through the deployment of advanced technology and procurement of renewable energy  
20 resources, provide support to low-income customers, reactivate and expand energy  
21 efficiency programs, and promote competition by enabling competitive providers to offer  
22 innovative products to serve customers’ needs. This record need not, and should not, be  
23 revisited on rehearing.

1 One of those many benefits is the retail rate stability provided through Rider RRS. As the  
2 Commission found in the Order:

3 Rider RRS will operate as a form of rate insurance. If energy market prices  
4 stay at current low levels, customers will pay a charge under Rider RRS;  
5 however, if energy market prices rise from the current low levels, customers  
6 will begin to receive a credit under Rider RRS, which will mitigate the  
7 increases customers see on their bills. (Order, p. 80.)

8 The Commission additionally found that the Stipulated ESP IV, as modified, “will protect  
9 consumers against rate volatility and price fluctuations by promoting rate stability for all  
10 ratepayers in this state.” (Order, pp. 78-79.) Indeed, the evidence in the record in this case  
11 provided by the Companies – which the Commission found to be reliable – projected that  
12 the Companies’ customers will receive over the eight-year period of ESP IV an aggregate  
13 \$561 million credit (in nominal dollars). (Order, p. 81.) After taking into account another  
14 projection based on a United State Energy Information Administration (“EIA”) Reference  
15 case, the Commission concluded that Rider RRS would provide a projected credit to  
16 customers during ESP IV of \$256 million. (Order, p. 85.) The Commission combined this  
17 substantial benefit to customers with the many other quantitative and qualitative benefits  
18 of Stipulated ESP IV, as modified by the Commission in the Order, to find that Stipulated  
19 ESP IV, including its pricing and all other terms and conditions, is more favorable in the  
20 aggregate than the expected results that would otherwise apply under a MRO. (Order, pp.  
21 118-20.)

22 As approved in the Order, Rider RRS charges and credits would be based on a purchase  
23 power agreement (“PPA”) under which the Companies would purchase from FirstEnergy  
24 Solutions Corp. (“FES”) all of the output of two of FES’s plants – the W.H. Sammis plant  
25 (“Sammis”) and the Davis-Besse nuclear power station (“Davis-Besse”) – as well as FES’s

1 entitlement to generation units operated by the Ohio Valley Electric Corporation  
2 (“OVEC”) (collectively, the “Plants”). The Companies would sell this output into the  
3 wholesale market, and Rider RRS would reflect the netting of the Companies’ contract cost  
4 (the payments to FES) and the revenues received.

5 However, the Federal Energy Regulatory Commission (“FERC”) issued an Order on April  
6 27, 2016 in Docket Number EL16-34-000 (“FERC Order”) that found that the requirement  
7 in 18 C.F.R. § 35.39(b) to obtain prior approval for affiliate sales of electric energy or  
8 capacity applies to the PPA, and rescinded FES’s affiliate waiver as to the PPA. The FERC  
9 further directed that the PPA be filed for FERC’s review before it could go into effect.  
10 Because the Commission’s Order was issued on March 31, 2016, it did not reflect the  
11 findings and determinations made in the FERC Order. Additionally, the Commission’s  
12 Order modified Rider RRS to alter the treatment of capacity performance penalties as well  
13 as the treatment of forced outages at the Plants. (Order p. 92.)

14 Because any subsequent proceeding at FERC to review the PPA would require a much  
15 more lengthy time period to come to conclusion, the Companies have modified how Rider  
16 RRS charges and credits will be calculated so that Rider RRS will continue to provide all  
17 the rate stabilization benefits recognized in the Order, but without reliance on the PPA or  
18 any other contractual arrangement or other involvement of FES. Not only does the  
19 modified Rider RRS mechanism provide the same stabilization benefits to customers as  
20 the mechanism approved in the Order, but it is tied more closely to the existing record in  
21 this case used by the Companies to project Rider RRS’s \$561 million net credit to  
22 customers. Indeed, the stability mechanism the Companies will provide to customers will  
23 have fewer moving parts and, thus, will present less risk to customers. And because the

1 hedging function of Rider RRS will be provided directly by the Companies and not through  
2 a PPA construct, the Companies will be able to use any Rider RRS revenues produced in  
3 the near-term to support other Stipulated ESP IV initiatives such as grid modernization.  
4 Moreover, as will be discussed later in my testimony, the modified Rider RRS mechanism  
5 renders moot the treatment of capacity performance penalties as well as the treatment of  
6 forced outages.

7 **Q. PLEASE DESCRIBE THE COMPANIES' PROPOSAL.**

8 A. The Companies propose a few modest modifications to the calculation of the costs and  
9 revenues that will be reflected in Rider RRS. The only changes to the Rider RRS  
10 calculation are: 1) actual costs will be replaced with the costs which are already evidence  
11 of record and relied upon by the Commission in this case; 2) actual generation output will  
12 be replaced with the generation output which is already evidence of record and relied upon  
13 by the Commission in this case; and 3) actual capacity (MWs) cleared in the PJM capacity  
14 market will be replaced with the capacity (MWs) projected to clear, which is already  
15 evidence of record and relied upon by the Commission in this case. As before, these  
16 capacity MWs will be applied to actual base residual auction ("BRA") pricing. Proxy  
17 revenues for ancillary services and environmental attributes will be based on information  
18 in the record and relied upon by the Commission. As modified, Rider RRS will provide a  
19 more reliable hedge against increasing market prices by using the Companies' assumed  
20 costs of the Plants as a proxy for costs associated with fuel-diverse baseload generation  
21 assets. This is an improvement over the originally-proposed Rider RRS, which needed to  
22 be reconciled to actual Plant costs. Instead of exposing customers to the risk of unexpected  
23 cost increases at the Plants that could be passed through Rider RRS, the modified Rider

1 RRS holds constant the cost-side of the hedging mechanism using costs in the record  
2 already determined by the Companies – and, more importantly, by the Commission – to be  
3 reasonable. Further, by no longer relying upon actual generation output and actual capacity  
4 cleared in the PJM capacity market, customers are no longer exposed to risks associated  
5 with extended outages or other operational performance concerns, as well as offer  
6 strategies or other market performance concerns related to the Plants. The Proposal uses  
7 the generation output (MWhs) and cleared capacity (MWs) that were included in the record  
8 and relied upon by the Commission in reaching its decision.

9 By using the same inputs to calculate Rider RRS that were relied upon by the Commission  
10 in approving Rider RRS in the Order, the modified rate stability mechanism no longer  
11 relies on a PPA or any other contractual arrangement. By limiting the elements that are  
12 subject to change to day-ahead energy prices and actual capacity prices, the modified Rider  
13 RRS provides customers the benefit of the hedge without bearing the risk of changes in  
14 Plant costs, operating levels or any other operational or market performance risk.

15 **Q. WHAT ARE THE BENEFITS OF THE PROPOSAL?**

16 A. The Proposal will preserve the benefits of the Stipulated ESP IV for customers as  
17 previously determined by the Commission. Certain parties' concerns are addressed since  
18 FES will no longer have any involvement in how Rider RRS is determined. The benefit of  
19 locking in the cost and generation assumptions eliminates concerns of certain parties  
20 related to extended outages, capital spending levels, operating costs exceeding projections,  
21 Plant retirements, whether or not costs are legacy costs, and environmental compliance  
22 risks and costs. Further, because the hedging function would be provided by the  
23 Companies, the cash associated with Rider RRS charges would not flow to FES, thereby

1 potentially making more cash available for the Companies to support important initiatives  
2 such as grid modernization and other new technologies.

3 In addition, all other elements and benefits of the approved Stipulated ESP IV shall remain  
4 unchanged as previously approved by the Commission. The Companies will remain  
5 obligated to fulfill the remaining terms, conditions, and commitments set forth in Stipulated  
6 ESP IV, as approved. And the multiple quantitative and qualitative benefits of Stipulated  
7 ESP IV remain unaffected, such as the \$100 million risk sharing mechanism, the grid  
8 modernization and resource diversification initiatives, the base distribution rate freeze,  
9 programs to preserve and enhance rate options for customers, and support for retail  
10 competition. Moreover, the Commission-ordered mechanism limiting average customer  
11 bills will provide additional customer protections.

12 **Q. ARE THERE ANY CHANGES TO THE RATE DESIGN OR TIMING OF THE**  
13 **ANNUAL RIDER RRS FILING AND QUARTERLY TRUE-UPS ORDERED BY**  
14 **THE COMMISSION?**

15 A. No. There are no changes to the proposed rate design of Rider RRS regarding the allocation  
16 of the revenue requirement to each Company and each rate schedule or how it is billed to  
17 each rate schedule. The rider will be filed annually based on forecasted forward energy  
18 prices and known capacity prices for the ATSI Zone. The rider will be trued-up quarterly  
19 to reconcile projected energy revenues with actual energy revenues based on the actual  
20 monthly average on-peak and average off-peak day-ahead locational marginal price  
21 (“LMPs”) at the AEP-Dayton (“AD”) Hub, and to reconcile actual sales and billing  
22 demands with projected amounts.

1 **Q. PLEASE HIGHLIGHT DIFFERENCES IN HOW THE RIDER RRS ANNUAL**  
2 **RATE WILL BE DEVELOPED UNDER THIS PROPOSAL?**

3 A. As discussed earlier, under the Proposal, the Rider RRS costs will be the annual costs for  
4 each delivery year that are part of the record. There is no need for any reconciliation of  
5 costs in Rider RRS since the costs will not change.

6 For purposes of developing the forecasted annual energy revenue, the Companies will use  
7 the annual generation output values contained in the record.<sup>1</sup> Projected energy revenue  
8 will be reconciled to actual energy pricing in the quarterly true-up. Capacity revenue will  
9 be based on the MWs of capacity that were assumed to clear in the record multiplied by  
10 the applicable capacity price for generation in the PJM ATSI zone for the delivery year.  
11 Capacity revenues will not need to be reconciled since the MWs of capacity cleared will  
12 not change and the price paid to capacity will be known at the time Rider RRS is developed  
13 and will not change during the delivery year.<sup>2</sup>

14 **Q. HOW DOES THE PROPOSAL AFFECT THE EXISTING STIPULATIONS**  
15 **THAT WERE APPROVED AS PART OF STIPULATED ESP IV?**

16 A. Customers will continue to receive all of the benefits of Stipulated ESP IV, as modified by  
17 the Order. However, because Rider RRS charges and credits will no longer be reconciled  
18 to actual Plant costs and the Companies will not sell actual Plant output into PJM markets,

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<sup>1</sup> More specifically, monthly on-peak and monthly off-peak generation output values derived from the economic dispatch model that produced the annual generation output values contained in the record will be used. The monthly on-peak and off-peak generation output will be multiplied by average monthly on-peak and off-peak energy forwards for the AD Hub posted on the Intercontinental Exchange (“ICE”). To calculate the energy forwards for use in developing the energy forecast, the Companies will average the information from each trading day in the month of March that precedes the Rider RRS effective date.

<sup>2</sup> As is typically the case with rider reconciliations, the quarterly true-ups will include a reconciliation of projected billing determinants to actual billing determinants.

1 certain provisions in the stipulations may no longer be needed or may be implemented  
2 differently. For example, because FES's actual cost data will no longer be relevant, Staff  
3 will not need to request FES fleet information pursuant to the "full information sharing"  
4 provision in Section V.B.3.b. of the Third Supplemental Stipulation. Further, as I discuss  
5 below, the Companies expect the rigorous review process in Section V.B.3.a. of the Third  
6 Supplemental Stipulation will be simplified because there will be no actual costs to audit,  
7 and no offer strategies to review. Indeed, the annual compliance reviews in Section  
8 V.B.3.a. of the Third Supplemental Stipulation to assess the Companies' participation in  
9 PJM markets in relation to the PPA will no longer be necessary because the market revenue  
10 included in Rider RRS will be based on the assumed MWhs and MWs already in the record.  
11 Also, the early termination provision in Section V.B.1. of the Third Supplemental  
12 Stipulation is no longer applicable because the modified Rider RRS does not depend upon  
13 any specific PPA generation units.

14 **Q. ARE THE SIGNATORY PARTIES SUPPORTIVE OF THE PROPOSAL?**

15 A. The Companies have discussed the modified Rider RRS proposal with the Signatory  
16 Parties and, while many of the Signatory Parties have expressed support, the compressed  
17 timeline was such that we could not obtain full agreement as of the time of filing this  
18 testimony. We hope to docket a letter that indicates all signatory Parties' agreement to this  
19 Proposal. The Signatory parties that have expressed support so far are unified in their belief  
20 that the Proposal needs to be reviewed and approved quickly in order to assure a June 1,  
21 2016 effective date for the Stipulated ESP IV.

1 **Q. DOES THE STIPULATED ESP IV AS MODIFIED BY THE PROPOSAL**  
2 **CONTINUE TO MEET THE THREE-PRONG TEST FOR STIPULATIONS?**

3 A. Yes. Since the Proposal modifies only the Rider RRS calculation and does not amend the  
4 stipulations, there is no impact to the Commission's conclusions in the Order regarding the  
5 three-prong test.

6 **Q. DO YOU BELIEVE THAT MODIFIED RIDER RRS PROVIDES THE SAME**  
7 **BENEFITS AS THE RIDER RRS THAT WAS ORIGINALLY APPROVED AS**  
8 **PART OF THE COMMISSION'S ORDER?**

9 A. Yes. The modified Rider RRS provides all the benefits of the Rider RRS that was  
10 originally approved by the Commission and provides additional benefits as well. The  
11 modified Rider RRS still operates as a form of rate insurance for the Companies'  
12 customers. If power prices stay at the current low levels, customers will pay a charge under  
13 Rider RRS. However, if power prices rise, customers will begin to see credits to offset the  
14 increasing power prices. As a result, the modified Rider RRS would still have the effect  
15 of stabilizing or providing certainty regarding retail electric service. The modified Rider  
16 RRS is still a term, condition or charge. The Commission's findings that Rider RRS  
17 operates as a financial limitation on the consequences of customer shopping continues to  
18 apply, and Rider RRS also relates to bypassability and default service. The modified Rider  
19 RRS provides additional customer benefits inasmuch as it eliminates the risk to customers  
20 associated with changes in operating and capital costs or changes in Plant operating  
21 performance. Further, unfounded intervenor criticisms related to the PPA construct  
22 regarding adverse market impacts such as price suppression, new market entry deterrence

1 and impact on the benefits of energy efficiency and peak demand reduction programs,  
2 regardless of their merits, are now moot.

3 **Q. DOES MODIFIED RIDER RRS ALTER ANY OF THE BENEFITS FLOWING**  
4 **FROM RIDER RRS THAT THE COMMISSION RELIED UPON IN REACHING**  
5 **ITS DECISION IN STIPULATED ESP IV?**

6 A. No. The benefits from modified Rider RRS are expected to be at least equivalent to those  
7 relied upon by the Commission in reaching its decision on Rider RRS. In fact, benefits  
8 arising from modified Rider RRS will increase due to its design that includes fixed costs  
9 and fixed levels of annual generation output and capacity clearing in PJM auctions.

10 **Q. DOES THE MODIFIED RIDER RRS CONTAIN AN AROUND-THE-CLOCK**  
11 **PRODUCT?**

12 A. No. The underlying generation output assumptions that will be used going forward for  
13 purposes of developing Rider RRS are shaped based on the results of the economic dispatch  
14 model used to derive the generation output projections relied upon in this proceeding.  
15 Consequently, the generation output used in the calculation of Rider RRS will vary by  
16 month and differ between on-peak hours and off-peak hours.

17 **Q. WILL FES RECEIVE ANY OF THE CASH ASSOCIATED WITH THIS**  
18 **PROPOSAL?**

19 A. The implementation of Rider RRS will be solely the responsibility of the Companies.  
20 There are no contracts or any other form of an agreement between the Companies and FES  
21 that would require the Companies to share the revenues or expenses of modified Rider RRS  
22 with FES. This proposal was not designed to transfer regulated revenues to the competitive  
23 operations (including FES).

1 **Q. IS THERE A BENEFIT TO HAVING THE REVENUE COLLECTED AT THE**  
2 **COMPANIES?**

3 A. Yes. The cash projected to be collected in the first few years of Rider RRS could be used  
4 to fund the capital expenditures necessary to modernize the Companies' distribution grid  
5 through advanced metering infrastructure, distribution automation, and Volt/Var controls.  
6 It could also be used to invest in battery resources and/or to invest in new Ohio renewable  
7 resources.

8 **Q. PLEASE EXPLAIN WHY THE COMPANIES ARE MAKING THIS PROPOSAL?**

9 A. First, the Companies have a strong interest in the vitality of their service territories, and  
10 have a long history of supporting economic development in Ohio. By mitigating future  
11 increases and volatility, Rider RRS will promote economic development. Rider RRS  
12 operates as a retail rate stabilization mechanism to provide retail price protection to  
13 customers from longer-term market trends. This stabilization mechanism provides retail  
14 price stability, certainty and predictability over the long term to all customers. Rate  
15 volatility and retail price predictability are significant issues for customers. The  
16 Companies' customers, including large industrial customers on whom Ohio's economy  
17 depends, want pricing that is stable and predictable. Price stability is an important  
18 consideration in site location and expansion as well as large capital investments and  
19 employment decisions. Rider RRS benefits the local, state and regional economies by  
20 retaining and growing the industrial base and will contribute to the economic vitality of the  
21 region.

22 Second, as previously stated, certain of the funds from Rider RRS could be used to support  
23 state-of-the-art advancements such as grid modernization and/or battery technology.

1 Third, Rider RRS is necessary to ensure that the economic value of the Commission-  
2 approved Stipulated ESP IV is maintained for the Companies and its customers. Stipulated  
3 ESP IV, with all of its components, provides, among other things, a risk sharing element  
4 that assures at least \$100 million in credits are included in Rider RRS, a commitment to  
5 freeze base distribution rates through the entire eight-year term, a significant commitment  
6 to implement resource diversification initiatives, including an unprecedented commitment  
7 to establish a goal to reduce CO2 emissions and several provisions that provide significant  
8 support for economic development, energy efficiency and for low-income customers.

9 Rider RRS must be maintained to ensure all of the economic benefits and components of  
10 the Commission-approved Stipulated ESP IV remain intact.

11 **Q. ARE THERE PROVISIONS OF THE COMMISSION’S ORDER THAT ARE NO**  
12 **LONGER APPLICABLE?**

13 A. Yes. Because the Proposal operates without reference to a PPA and with no involvement  
14 of FES plants, a number of provisions in the Commission’s Order are no longer applicable;  
15 and the Commission should acknowledge that they are withdrawn:

16 1. On page 86 of the Order, the Commission directed that if the Companies proceed  
17 with Rider RRS by filing tariffs and finalizing a PPA with FES based upon the  
18 Term Sheet, the Commission will construe such actions as the voluntary acceptance  
19 of the mechanism limiting average customer bills. Given the absence of any PPA  
20 or other contractual arrangement with FES under the Proposal, the triggering  
21 language in this provision no longer applies.

22 2. On page 91 of the Order, the Commission made reference to “net revenues from  
23 the output of the generating units” and “costs of the generating units” when

1           adopting the proposed risk sharing mechanism. While the risk sharing mechanism  
2           remains intact, the risk sharing mechanism will be calculated in accordance with  
3           the Stipulation without reliance on actual revenues and costs of the Plants.

4           3.     On page 92 of the Order, the Commission required the Companies to bear the risk  
5           of capacity performance non-performance charges. Under the Proposal, the  
6           Companies will not incur non-performance charges as the Companies will not offer  
7           MWs of capacity in the capacity auctions. Therefore, language prohibiting the  
8           Companies from recovering non-performance charges under Rider RRS is no  
9           longer applicable.

10          4.     On page 92 of the Order, the Commission reserved the right to prohibit recovery of  
11          any costs related to any unit for any period exceeding 90 days for any forced outage  
12          during the term of Stipulated ESP IV. Given the lack of a PPA under the Proposal,  
13          this reservation of rights is no longer necessary.

14          5.     On page 92 of the Order, the Commission reserved the right to reevaluate and  
15          modify the Stipulations if there is a change to PJM's tariffs or rules which prohibits  
16          the Plants from being offered into PJM auctions. This reservation of rights is  
17          unnecessary under the Proposal because the 3,200 MW hedge is not tied to any  
18          particular plants and, more pointedly, no MWs are being offered into the capacity  
19          auctions, as discussed below.

20          6.     Because the Order adopts the Third Supplemental Stipulation, the provision stating  
21          that the Commission may proceed to terminate the specific charge/credit of Rider  
22          RRS for any Plant generation unit upon its sale or transfer pursuant to Revised Code  
23          ("R.C.") 4905.26 is no longer appropriate. The rate stability mechanism is no

1 longer tied to the Plants, but rather is representative of generic fuel diverse baseload  
2 units. Accordingly, this provision is no longer appropriate.

3 **Q. UNDER THE PROPOSAL WILL THE COMMISSION BE ABLE TO MODIFY**  
4 **RIDER RRS DURING THE TERM OF STIPULATED ESP IV?**

5 A. Yes. In lieu of the provision in Section V.B.1. of the Third Supplemental Stipulation  
6 referenced above, the Proposal includes the following customer protections that provide  
7 the same type of benefit, albeit on a more generic but still fuel diverse basis reflecting the  
8 changed nature of the hedge. In the event that during the time that Rider RRS remains in  
9 effect, less than 3,200 MWs of formerly rate-based nuclear or fossil generation owned by  
10 the Companies on January 2000 remains in operation, including at least 900 MWs of  
11 nuclear resources which may be needed to help meet any potential 111(d) state  
12 implementation plan, the Commission may proceed to reduce the charge/credit of Rider  
13 RRS by a proportionate amount pursuant to a Commission-initiated proceeding pursuant  
14 to R.C. 4905.26. Effectively, Rider RRS helps ensure the continued operation of 3,200  
15 MWs of fuel diverse baseload generation. Accordingly, the significant economic  
16 development and job retention benefits and transmission reliability benefits contemplated  
17 under the original proposal for the region would continue to exist, albeit for potentially  
18 different plants. However, because the commitment involves previously rate-based units,  
19 the Commission is assured that the plants were built to serve Ohio customers and, therefore,  
20 will provide similar transmission advantages. For example, it is well known that the Perry  
21 Plant is important to reliability in the Cleveland are; and as a result of retirements of 2,400  
22 MWs of coal-fired power plants in Ohio, costs of approximately \$1 billion were estimated  
23 for transmission upgrades amounting to essentially an extension cord to the Bruce

1 Mansfield plant. Continued operating of plants built to serve Ohio customers not only  
2 provides reliability benefits to customers, but also advantages customers through the  
3 avoidance of transmission investment that would be needed if plants closed. For example,  
4 recent history and the record in this case indicate that plant retirements of this magnitude  
5 could result in transmission investment of over \$1 billion, which would be borne by  
6 customers. The point being that substituting previously rate-based units for Sammis and  
7 Davis-Besse should have benefits of the same nature as previously noted in the record. As  
8 the record demonstrates, and the Commission has recognized, continued operation of fuel  
9 diverse baseload generating units provides significant positive economic and tax impact  
10 for employees, suppliers, and governmental entities in the region. (See Order, p. 88.) As  
11 long as the 3,200 MWs are located within the integrated ATSI zone, customers will  
12 continue to receive the reliability benefits demonstrated in the original proposal.

13 **Q. DO THE COMPANIES HAVE THE ABILITY TO TERMINATE MODIFIED**  
14 **RIDER RRS BEFORE STIPULATED ESP IV ENDS?**

15 A. The Companies will continue to provide credits to, or collect revenues from, customers as  
16 calculated under modified Rider RRS as described in this testimony during the period that  
17 Stipulated ESP IV remains in effect.

18 **Q. WILL THE STAFF CONTINUE TO HAVE AN OPPORTUNITY TO CONDUCT**  
19 **RIGOROUS REVIEW OF THE MODIFIED RIDER RRS?**

20 A. Yes, the Staff will continue to have an opportunity to perform a rigorous review of Rider  
21 RRS, but the nature of the review will change to align with the modified Rider RRS. The  
22 Staff will still be able to conduct the initial review of the Companies' annual Rider RRS  
23 filing for mathematical accuracy, consistency with the Commission-approved rate design

1 and to assure proper incorporation of prior audits finds, if applicable. The Staff will also  
2 conduct a second review, the annual audit of Rider RRS. This annual audit will be  
3 conducted following completion of the final quarterly true-up (reconciliation) filing for the  
4 rider. This annual review could, for example, include a detailed review of the energy  
5 revenue calculation, the capacity revenue calculation, assurance that the appropriate costs  
6 and MWhs and MWs were used in the Rider RRS and that the appropriate ancillary and  
7 environmental attributes revenues were used.

8 It will no longer be necessary for Staff to review actual costs because Rider RRS will rely  
9 upon proxy costs and not the actual costs of any particular generating facilities. Since there  
10 are no actual costs included in the rider, there is no longer a need for annual prudence  
11 reviews or for full information sharing on the FES fleet. It will no longer be necessary for  
12 Staff to review outage lengths, or to concern themselves with whether or not Plant  
13 retirement costs are included in Rider RRS. There are no early retirement costs included  
14 in the cost projections that will be used for Rider RRS under the Proposal. In addition, it  
15 will no longer be necessary for Staff to review actions taken by the Companies when  
16 offering or bidding capacity or energy from the generating units into PJM since the  
17 Companies will no longer be involved with offering or bidding any of this capacity or  
18 energy into the PJM market.

19 As part of the first Rider RRS annual audit, the Companies will provide audited accounting  
20 information as contemplated in the Order.

1 **Q. WOULD THE CHARGES OR CREDITS FROM RIDER RRS BE INCLUDED IN**  
2 **THE ANNUAL SIGNIFICANTLY EXCESSIVE EARNINGS TEST (“SEET”)?**

3 A. No. As originally designed and subsequently approved by the Commission, Rider RRS  
4 was to have no net financial impact on the Companies, and therefore would have no impact  
5 on the Companies’ annual SEET results during Stipulated ESP IV. The Companies’  
6 proposed modifications to Rider RRS are intended to maintain the benefits to customers  
7 that were recognized by the Commission. However, due to the proposed modifications to  
8 Rider RRS described above, Rider RRS will no longer be revenue neutral to the  
9 Companies. Therefore, an essential element of the Companies’ Proposal is that all  
10 revenues and expenses associated with Rider RRS should be excluded from the  
11 Companies’ SEET calculation as a special item, consistent with the Commission’s Order  
12 in Case No. 09-786-EL-UNC. This treatment maintains the balance from the Order by  
13 ensuring that customers receive the benefits of Rider RRS, while not impacting the  
14 Companies’ annual SEET calculation.

15 **Q. WHAT IS THE IMPACT OF THE MODIFIED RIDER RRS CALCULATION ON**  
16 **THE ESP V. MRO TEST ON A QUANTITATIVE BASIS?**

17 A. In the Order, the Commission found that Rider RRS was estimated to provide significant  
18 quantifiable benefits to customers. The modified Rider RRS calculation does not impact  
19 the Companies’ analysis that was relied upon by the Commission in the Order, since the  
20 modified Rider RRS calculation is designed to produce the same or very similar results for  
21 customers. In the Order, the Commission did not include any quantifiable benefits  
22 associated with economic development, job retention, or avoided transmission investment  
23 arising from the Economic Stability Program. However, the Commission identified several

1 other factors in its quantitative analysis of Stipulated ESP IV compared to an MRO, none  
2 of which change as a result of the Companies' Proposal. The Order also recognized  
3 quantitative customer benefits from shareholder funding for economic development, low-  
4 income customers and a customer advisory agency, totaling \$51.1 million over the  
5 Stipulated ESP IV term, all of which remain intact. Therefore, Stipulated ESP IV is still  
6 more favorable quantitatively compared to the expected results of an MRO.

7 **Q. DOES THE PROPOSAL IMPACT THE COMMISSION'S DETERMINATIONS**  
8 **WITH RESPECT TO THE AEP FACTORS?**

9 A. No, because those factors applied only to a PPA-type construct, which modified Rider RRS  
10 is not. However, Stipulated ESP IV, including the Proposal, continues to provide  
11 reliability, supply diversity and economic development benefits, as previously discussed.

12 **Q. WHAT IS THE IMPACT OF THE MODIFIED RIDER RRS CALCULATION ON**  
13 **THE ESP VS. MRO TEST ON A QUALITATIVE BASIS?**

14 A. In the Order, the Commission acknowledged that Rider RRS provides qualitative benefits  
15 to customers by protecting them against rate volatility and price fluctuations, and by  
16 promoting rate stability. These qualitative benefits are enhanced under the modified Rider  
17 RRS calculation, which is designed to provide even greater rate stability to customers.  
18 Under the modified calculation, customers have greater certainty around the costs and  
19 revenues used in the Rider RRS calculation, including MWh output and MWs of capacity,  
20 so there is no risk of volatility in these variables due to unplanned outages, unexpected cost  
21 increases, or the Plants not clearing in the PJM capacity auctions. Further, the modified  
22 Rider RRS calculation does not impact any of the other qualitative benefits of Stipulated

1 ESP IV relied upon by the Commission in its Order. These qualitative benefits include,  
2 but are not limited to:

- 3 • Protection of consumers against rate volatility and price fluctuations by promoting rate  
4 stability for all ratepayers in this state;
- 5 • Modernization of the grid through the deployment of advanced technology and  
6 procurement of renewable energy resources;
- 7 • Promotion of competition by enabling competitive providers to offer innovative  
8 products to serve customers' needs;
- 9 • Continuation of the distribution rate increase freeze until June 1, 2024, to provide rate  
10 certainty, predictability, and stability for customers;
- 11 • Continuation of multiple rate options and programs to preserve and enhance rate  
12 options for various customers provided in previous ESPs;
- 13 • Establishment of a goal to reduce CO<sub>2</sub> emissions by FirstEnergy Corp. with periodic  
14 reporting requirements;
- 15 • Reactivation and expansion of energy efficiency programs previously suspended by the  
16 Commission, with a goal of saving 800,000 MWhs of energy annually;
- 17 • Programs to promote the use of energy efficiency programs by small businesses  
18 pursuant to state policy set forth in R.C. 4928.02(M); and
- 19 • Commitments to: (1) modernize distribution infrastructure through the filing of a  
20 business plan for the deployment of smart grid technology and advanced metering  
21 infrastructure in accordance with Ohio policy set forth in R.C. 4928.02(D); (2) promote  
22 resource diversity by investing in utility scale battery technology and, potentially, by  
23 procuring additional renewable energy resources; and (3) transition to a SFV rate

1 design, which balances the elimination of disincentives for the Companies to promote  
2 energy efficiency and conservation programs with the promotion of the principle of  
3 cost causation.

4 Therefore, Stipulated ESP IV remains more favorable qualitatively than the expected  
5 results of an MRO.

6 **Q. IS STIPULATED ESP IV, INCLUDING THE MODIFIED CALCULATION OF**  
7 **RIDER RRS, MORE FAVORABLE IN THE AGGREGATE THAN THE**  
8 **EXPECTED RESULTS OF AN MRO?**

9 A. Yes. The modified Rider RRS calculation maintains the quantitative benefits of the  
10 Stipulated ESP IV recognized by the Commission and enhances the qualitative benefits of  
11 Rider RRS discussed in the Order. Therefore, Stipulated ESP IV is still more favorable in  
12 the aggregate than the expected results of an MRO.

13 **Q. WHAT IS YOUR RECOMMENDATION AS TO HOW THE COMMISSION**  
14 **SHOULD PROCEED REGARDING THE COMPANIES' PROPOSAL?**

15 A. I recommend that the Commission expeditiously rehear this limited aspect of Stipulated  
16 ESP IV so that the Companies' customers may start to receive the rate stabilization benefits  
17 of Rider RRS on June 1, 2016. Untold hours have been devoted by the many parties to this  
18 case on the numerous, important provisions in Stipulated ESP IV. The Commission acted  
19 reasonably to approve Stipulated ESP IV, with modifications, on March 31, 2016, so that  
20 the Companies could begin to provide the benefits of Stipulated ESP IV to their customers  
21 beginning on June 1, 2016. Any delay to the June 1, 2016 start would be unwarranted,  
22 given that the Companies' Proposal retains all the stability benefits of Rider RRS while  
23 simplifying and de-risking the Rider RRS calculation using existing record evidence. The

1 mechanics of the Rider RRS calculation as modified are minor and create less risk to  
2 customers; all other provisions relied upon by the Commission in making its  
3 determinations remain intact. And the modifications actually serve to reduce risk for  
4 customers while meeting all the objectives of the Order. In fact, the modified cost and  
5 revenue inputs proposed for use have been available to the parties to this case since August  
6 4, 2014. Thus, the Companies ask that the Commission approve these beneficial  
7 modifications to the Rider RRS calculation by May 25, 2016.

8 **Q. DOES THIS CONCLUDE YOUR REHEARING TESTIMONY?**

9 A. Yes, at this time.

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Summary: Text Rehearing Testimony of Eileen M. Mikkelsen electronically filed by Ms. Carrie M Dunn on behalf of Ohio Edison Company and The Cleveland Electric Illuminating Company and The Toledo Edison Company