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**Via E-FILE**

July 15, 2016

Public Utilities Commission of Ohio  
PUCO Docketing  
180 E. Broad Street, 10th Floor  
Columbus, Ohio 43215

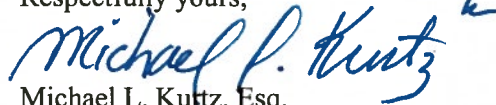
**In re: Case No. 14-1297-EL-SSO**

Dear Sir/Madam:

Please find attached the REBUTTAL TESTIMONY OF STEPHEN J. BARON on behalf of the OHIO ENERGY GROUP e-filed today in the above-referenced matters.

Copies have been served on all parties on the attached certificate of service. Please place this document of file.

Respectfully yours,

A handwritten signature in blue ink that reads "Michael L. Kurtz" with a stylized flourish at the end.

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**BOEHM, KURTZ & LOWRY**

MLKkew

Encl.

Cc: Certificate of Service

**BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO**

In The Matter Of The Application Of The :  
Ohio Edison Company, The Cleveland :  
Electric Illuminating Company, and The : **Case No. 14-1297-EL-SSO**  
Toledo Edison Company For Authority To :  
Establish A Standard Service Offer :  
Pursuant To R.C. § 4928.143 In The Form :  
Of An Electric Security Plan. :

**REBUTTAL TESTIMONY**

**OF**

**STEPHEN J. BARON**

**ON BEHALF OF**

**THE OHIO ENERGY GROUP**

**J. KENNEDY AND ASSOCIATES, INC.  
ROSWELL, GEORGIA**

**July 15, 2016**

**I. QUALIFICATIONS AND SUMMARY**

**Q. Please state your name and business address.**

A. My name is Stephen J. Baron. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

**Q. Have you previously submitted testimony in this proceeding?**

A. Yes. I submitted Supplemental Testimony on March 2, 2015 and Rehearing Testimony on June 22, 2016.

**Q. What is the purpose of your rebuttal testimony?**

A. I discuss the Distribution Modernization Rider ("DMR") proposed by Staff and recommend how the DMR costs should be allocated to and recovered from retail customers if approved. While Staff noted that the DMR costs would be allocated to retail customers, Staff did not provide a specific recommendation regarding the cost allocation methodology or rate design that should be used.

**Q. Please provide your understanding of Staff's proposed Distribution Modernization Rider.**

A. The proposed DMR is intended to assist The Cleveland Electric Illuminating Company, Ohio Edison Company, and The Toledo Edison Company (collectively, "the Companies") in receiving more favorable terms when accessing the capital market, which Staff believes will enable the Companies to procure funds to jumpstart their distribution and grid modernization initiatives. Staff recommends

1           that FirstEnergy Corp. ("FE") keep its corporate headquarters and nexus of  
2           operations in Akron, Ohio for the term of the Companies' current Electric Security  
3           Plan or that the proposed DMR be subject to refund, which also gives the DMR an  
4           economic development component. Staff calculates that the Companies'  
5           proportionate share of FE's operating revenue necessitates an average annual DMR  
6           charge to customers of \$131 million.

7  
8       **Q.    What is your position on Staff's proposed Distribution Modernization Rider?**

9       A.    I take no position with respect to whether the Commission should approve or  
10          disapprove the proposed DMR. If the DMR is ultimately approved, however, the  
11          Commission should require the Companies to allocate the DMR costs in a manner  
12          consistent with cost causation principles and Ohio's policy of encouraging economic  
13          development.

14  
15       **Q.    How do you recommend that the proposed Distribution Modernization Rider**  
16       **be allocated?**

17       A.    The most appropriate cost allocation for the proposed DMR would be an allocation  
18          based entirely upon distribution revenues. As its nomenclature suggests, the DMR is  
19          primarily a distribution-related rider since the revenues received by the Companies  
20          under that Rider are intended to incentivize increased investment in distribution  
21          modernization. Additionally, the Ohio Revised Code provision that Staff cites as  
22          legal authority for the proposed DMR is specifically related to distribution service.

1 That said, I recommend that the Commission take a somewhat different approach  
2 with respect to the proposed DMR cost allocation due to the unique nature of that  
3 Rider. Because the DMR is also intended to incentivize FE to remain headquartered  
4 in Ohio, there is an economic development component to the rider. Given that the  
5 rider has both distribution and economic development components, I recommend  
6 that the Commission take a hybrid approach to allocating proposed DMR costs.  
7 Under that approach, the Companies should allocate DMR costs to rate schedules 50  
8 percent on the basis of distribution revenues and 50 percent on the basis of demand  
9 (4 Coincident Peak).

10  
11 **Q. Should any of the proposed Distribution Modernization Rider costs be**  
12 **allocated on the basis of energy?**

13 A. No. There is no nexus between the proposed DMR costs and the volume of energy  
14 used by a given customer. Recovery of any DMR costs on the basis of energy  
15 therefore would be inconsistent with principles of cost causation. Allocating the  
16 proposed DMR costs on the basis of energy would also harm economic development  
17 in Ohio, contrary to one of the primary goals of establishing the proposed DMR.  
18 Adopting an energy-based allocation for the DMR would force large energy-  
19 intensive customers, who must compete both nationally and internationally and who  
20 would derive little benefit from additional distribution infrastructure modernization,  
21 to pay a disproportionate amount of DMR costs. This outcome would be  
22 inconsistent with Ohio's policy of bolstering the State's effectiveness in the global  
23 economy.

1       **Q.     What is your recommendation with respect to the rate design of the proposed**  
2       **Distribution Modernization Rider?**

3       A.     After the 50/50 cost allocation I recommend takes place, the Companies should  
4       collect the allocated DMR costs using a kWh charge calculated separately for each  
5       rate schedule for each Company.

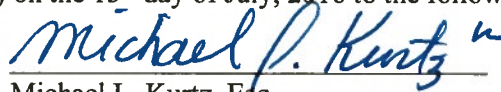
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7       **Q.     Does that complete your testimony?**

8       A.     Yes.

## CERTIFICATE OF SERVICE

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document on the parties referenced on the service list of the docket card who have electronically subscribed to this case. In addition, the undersigned certifies that a courtesy copy of the foregoing document is also being served (via electronic mail) on the 15<sup>th</sup> day of July, 2016 to the following:



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**Case No(s). 14-1297-EL-SSO**

Summary: Testimony Ohio Energy Group (OEG) Rebuttal Testimony of Stephen J. Baron  
electronically filed by Mr. Michael L. Kurtz on behalf of Ohio Energy Group