BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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In the Matter of the :
Application of Ohio Edison:
Company, The Cleveland :
Electric Illuminating :
Company, and The Toledo :

Edison Company for : Case No. 14-1297-EL-SSO

Authority to Provide for: a Standard Service Offer: Pursuant to R.C. 4928.143: in the Form of an Electric: Security Plan.

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PROCEEDINGS

before Mr. Gregory Price and Ms. Megan Addison,
Attorney Examiners, at the Public Utilities
Commission of Ohio, 180 East Broad Street, Room 11-A,
Columbus, Ohio, called at 1:00 p.m. on Thursday,
July 21, 2016.

REHEARING VOLUME VI

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1284 Thursday Afternoon Session, 1 2. July 21, 2016. 3 4 EXAMINER ADDISON: Let's go ahead and go 5 on the record. 6 The Public Utilities Commission of Ohio 7 has set for hearing at this time and place, Case 8 No. 14-1297-EL-SSO, being In the Matter of the 9 Application of Ohio Edison Company, The Cleveland 10 Electric Illuminating Company, and The Toledo Edison 11 Company for Authority to Provide a Standard Service 12 Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan. 13 14 My name is Megan Addison and with me is 15 Gregory Price, and we are the Attorney Examiners 16 assigned to preside over this hearing. 17 We will dispense taking appearances 18 today. 19 Mr. Kurtz. 20 MR. KURTZ: Thank you, your Honor. 21 Mr. Baron, will you identify your name 22 and business address for the record, please. 23 EXAMINER ADDISON: Thank you. 24 Mr. Baron, I just need to swear you in 25 real quickly.

1285 (Witness sworn.) 1 2. EXAMINER ADDISON: Thank you. You may be 3 seated. 4 5 STEPHEN J. BARON 6 being first duly sworn, as prescribed by law, was 7 examined and testified as follows: 8 DIRECT EXAMINATION 9 By Mr. Kurtz: 10 Will you state your name and business Ο. 11 address for the record, please. 12 Α. Stephen Baron and my business address is 13 J. Kennedy and Associates, Inc., 570 Colonial Park 14 Drive, Suite 305, Roswell, Georgia 30075. 15 Do you have in front of you a document 0. 16 entitled "Rebuttal Testimony of Stephen J. Baron"? 17 Α. Yes. 18 MR. KURTZ: Your Honor, I would like to 19 have this marked as OEG Exhibit 7. 20 EXAMINER ADDISON: It will be so marked. 21 (EXHIBIT MARKED FOR IDENTIFICATION.) 22 Ο. Mr. Baron, was this document prepared by 23 you or under your direct supervision? 24 Α. Yes. 25 Do you have any corrections or additions Q.

you would like to make to your testimony?

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- A. I don't have any corrections to the testimony, per se, but I have an addition of an Attachment 1 which is a -- a schedule essentially that's -- which I believe was provided to the parties yesterday, I believe. And it shows the -- it provides an illustration of the allocation method that I've talked about in my testimony.
- Q. Mr. Baron, why wasn't this Attachment 1 submitted with your testimony last Friday afternoon?
- A. Basically, it is a matter of timing. I think we found out the ability, that we had the ability to file rebuttal -- or additional testimony in response to the staff last Monday.

I was not -- I was traveling -- I was preparing for this case, and then Tuesday I was testifying in Ohio and the testimony was filed on Friday. So it was just -- it was a question of timing, and after the testimony was filed, I was able to actually do some of the calculations.

- Q. Did the data that went into Attachment 1 require you to go back to the 2008 distribution rate case?
- A. Yes. In order to get some of the inputs for the calculations, and again, this is an

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indicative calculation, I can describe it, but
basically I -- the most -- the only available
distribution revenue data that I had was from the
2008 rate case, so we have to go to the Commission's
website and try to identify schedules that would
provide that information.
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- Q. Okay. On this Attachment 1 to your testimony, is Footnote 1 correct or should there be a change there?
- 10 A. Footnote 1 which says "JMS-1" should be 11 "JMS-2."
 - Q. With those changes and additions, if I were to ask you the same questions as those contained herein, would your answers be the same?
 - A. Yes.

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- MR. KURTZ: Your Honor, I submit the witness for cross.
- MR. KUTIK: I just had a question,

 perhaps to Counsel. The attachment is going to be

 included as part of Exhibit 7? Is that a separate

 exhibit?
- MR. KURTZ: That's our intent, attachment to Exhibit 7.
- MR. McNAMEE: Would it be clearer if we marked it separately perhaps?

1 EXAMINER ADDISON: Let's go ahead and 2 mark that separately. 3 MR. KURTZ: Should we mark it 4 attachment -- OEG Attachment Exhibit 1? EXAMINER ADDISON: Let's just go ahead 5 6 and mark it as OEG Exhibit 8 just so the record is 7 clear. 8 MR. KURTZ: Thank you. 9 (EXHIBIT MARKED FOR IDENTIFICATION.) EXAMINER ADDISON: Thank you, Mr. Kurtz. 10 11 Mr. Dougherty, any questions? 12 MR. DOUGHERTY: No questions, your Honor. 13 EXAMINER ADDISON: Mr. Hays? 14 MR. HAYS: No questions, your Honor. 15 EXAMINER ADDISON: Mr. Darr? 16 Thank you, ma'am. MR. DARR: 17 18 CROSS-EXAMINATION 19 By Mr. Darr: 20 Q. Good afternoon, Mr. Baron. 21 Good afternoon. Α. 22 I am here on behalf of the Industrial Ο. 23 Energy Users of Ohio. Turning to page 3 of your testimony, you identify the basis for making the 24 25 allocation is a hybrid approach using distribution

and economic development factors; is that correct?

A. Yes.

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- Q. Now, are you familiar with the collection mechanisms for economic development riders or allocation methodologies used for economic development riders of other companies?
- A. I have -- certainly, in the past, I've reviewed those. I actually -- I haven't reviewed them recently, so I -- I can't tell you that I -- I can't describe it right now.
- Q. Based on that review, is it your understanding that the Commission has approved for the AEP company a rider that uses distribution revenues as a means of allocating the revenue requirement?

MR. MOORE: Objection, your Honor.
That's friendly cross.

MR. DARR: Not at all, your Honor.

MR. KUTIK: Had the question been

20 | finished?

EXAMINER ADDISON: Please finish your question, Mr. Darr.

And then if you feel the objection still applies, Mr. Moore, you can raise it then.

Q. (By Mr. Darr) Again, my question was, are

you aware that the distribution rider -- excuse me, the economic development rider approved for AEP Ohio uses a collection mechanism that uses percentage of distribution revenues as the allocator?

- A. I have a general recollection of that and I probably addressed it in testimony, but, again, I haven't reviewed it recently.
- Q. Are you familiar with the fact that the -- familiar with the collection mechanism for the economic development rider of Dayton Power and Light Company?
 - A. I don't recall.

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- Q. How about the stipulation in this case for purposes of calculating the delta revenue rider?
 - A. I don't have a recollection of that.
- Q. Okay. Would it be fair to say that in the case of AEP Ohio, the economic development rider that you are familiar with uses a distribution-based allocation methodology?
- A. That's my general recollection to the best of what I can remember.
 - Q. And it is collected on a percentage of distribution revenues, correct?
- A. That would be -- again, that's my recollection.

- Q. Mr. Baron, is there a reason why you did not look at the allocation methodologies used by the Commission or approved by the Commission in the Dayton Power and Light -- for Dayton Power and Light or for -- excuse me, for Dayton Power and Light?
- A. For the costs that -- under the staff's proposed \$131 million charge; is that what you are speaking of?
 - Q. Right.
 - A. Is there a reason?
 - O. Yeah.

- A. It didn't occur to me.
- Q. And in your determination of using this hybrid approach, you've indicated a minute ago that you did not consider the allocation methodology approved by the Commission in the stipulation; is that correct?
 - A. For the allocation method for what?
 - O. For the delta revenue rider.
 - A. No.
- Q. And was there a reason why you did not investigate or look into that as an allocation methodology for the staff's proposed rider?
- A. I didn't -- it didn't occur to me there
 would be a connection. I just haven't -- I haven't

reviewed it. The methodology that I am recommending for the treatment of any charges pursuant to the staff's proposal was based on the rationale that I describe in my testimony, that is primarily related -- it's justified on the basis of -- as a distribution-related cost and it certainly -- it could be argued that it would be -- could be allocated or should be allocated 100 percent on distribution revenues, but there are other aspects to it as described by the staff.

2.

And so, as a result of that, I'm recommending what I believe is a reasonable, balanced approach, which is 50 percent on distribution revenues and 50 percent on rate class 4 coincident peak demands.

The staff's proposed charge is -- is -- I guess is unique and I didn't necessarily characterize it in my -- it wasn't -- I didn't consider it in my mind as similar to a delta revenue recovery.

- Q. Well, you are aware that the delta revenue recoveries are used in Ohio for purposes of recovering economic development related shortfalls, correct?
- A. Yes. I mean, that's my understanding of delta revenue and they -- go ahead.

Q. Go ahead.

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- A. No. I'm finished.
- Q. Are you aware of any instance in Ohio where the Commission has approved, for purposes of economic development riders, an allocation methodology that uses a 4 CP approach?
- A. For -- for economic development related costs?
 - Q. Yes.
- A. I haven't investigated that and, of course, the proposal I'm making is not to allocate the costs on the basis of 100 percent 4 CP, but, rather, to allocate 50 percent on distribution revenues and 50 percent on 4 coincident peak.
- Q. I understand that. My question is more specific though. And I just want to make sure that the record is clear on this. Are you aware of any instance in which the Commission has approved an allocation methodology for an economic development related rider that uses a 4 CP methodology?
- A. I haven't done an investigation, so I'm not aware of it one way or the other.
- MR. DARR: Thank you.
- Nothing further of this witness.
- For purposes of the record, however, I am

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going to ask that the Commission take administrative
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2.
     notice of the application and decision, approving
 3
     riders in -- economic development riders in Case
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     No. 16-0571-EL-RDR. The application was filed on
 5
    March 17, 2016. And also the application and
 6
     decision approving that application in Case
7
     No. 16-260-ELR-RDR. The first is related to the
8
     Dayton Power and Light Company. The second is
9
     related to the AEP Ohio Company.
10
                 MR. KUTIK: What was the first number?
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                 MR. DARR: 16-571.
12
                 EXAMINER ADDISON: Thank you, Mr. Darr.
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     I don't believe we've required administrative notice
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     of past Commission decisions, so you are free to cite
15
     to those. Any party is free to cite to those in
16
    briefs following the hearing.
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                 MR. DARR: Fine, your Honor. Thank you.
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                 EXAMINER ADDISON: Thank you.
19
                 However, we will be taking administrative
20
     notice of the application.
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                 MR. DARR: In each -- excuse me, your
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     Honor. In each?
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                 EXAMINER ADDISON: In each of those
24
     cases, yes.
25
                            Thank you.
                 MR. DARR:
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1 EXAMINER ADDISON: Thank you, Mr. Darr. 2. Ms. Ghiloni? 3 MS. GHILONI: No questions, your Honor. 4 EXAMINER ADDISON: Mr. Mendoza? 5 MR. MENDOZA: No questions, your Honor. 6 EXAMINER ADDISON: Mr. Settineri. 7 MR. SETTINERI: Thank you, your Honor. 8 9 CROSS-EXAMINATION 10 By Mr. Settineri: 11 Good afternoon, Mr. Baron. My name is 12 Mike Settineri on behalf of P3/EPSA and RESA. Just a few questions for you. If you could turn to page 3 13 14 of your testimony. 15 Α. Yes. 16 Line 4. And when you are there, line 4, Ο. 17 you use a phrase "there is an economic development 18 component to the rider." Do you see that phrase? 19 Α. Yes. 20 And when you use that phrase, you're Q. 21 referring to the economic impact of FirstEnergy 22 keeping its headquarters in Ohio, correct? Yes. I think that's -- that's the nexus 23 Α. 24 for that argu -- position. 25 Q. If you could turn to page 2 of your

testimony. Let's look at lines 18 and 19.

- A. You say 18 and 19?
- O. Uh-huh.
- A. Okay.

2.

- Q. If you look at 18 and 19, you state that "the DMR is primarily a distribution-related rider...." Do you see that?
 - A. Yes.
- Q. Now, you agree that under staff's proposal, the companies, which would be the FirstEnergy utilities, are not required to spend any amount on grid modernization, correct?
 - A. That would be my understanding.
- Q. But if the distribution modernization rider which has been proposed by staff -- let me strike that. Let's start over.

The distribution modernization rider proposed by staff would be a distribution-related rider if revenues were used to recover costs related to grid modernization programs, correct?

- A. Repeat that again.
- Q. Sure. Would -- is it your understanding that the distribution modernization rider proposed by staff would be a distribution-related rider if revenues from that rider were used to recover costs

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related to grid modernization programs?
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MR. MOORE: Objection, your Honor. It's friendly cross. It's simply supporting his testimony.

EXAMINER ADDISON: Mr. Settineri?

MR. SETTINERI: I don't think it's supporting the testimony. It's going to -- it's linking actual costs to the rider proposal itself.

MR. KUTIK: I'll object, your Honor, as beyond the scope. We are not talking about the costs that are included. We are talking about how allocation; how the costs should be allocated for rate-design purposes.

MR. SETTINERI: His testimony, at 18 to 20, he calls it "primarily a distribution-related rider" since revenues are intended to incentivize. So I am certainly entitled to explore his understanding of what a distribution related rider is and what it could be. And that's what the question is.

EXAMINER ADDISON: I am going to sustain the objection on Mr. Kutik's grounds.

Q. (By Mr. Settineri) If you could turn to page 3, lines 18 to 21 of your testimony, please.

Are you there?

A. Yes.

- Q. Okay. Now, in that testimony you believe that an energy allocation for the distribution modernization rider could adversely affect large energy-intensive customers' ability to compete, correct?
 - A. Yes.
- Q. And you also agree that as proposed by the staff, the distribution modernization rider will be a charge at all times for large energy-intensive customers, correct?
- A. Well, the staff didn't actually propose an allocation method or rate recovery method. That's really the purpose of my testimony, but the -- if you are asking me to assume that it's a nonbypassable rider that would apply to every customer, I am willing to assume that.
- Q. And your understanding it would be a charge at all times, correct?
- A. In contrast to the RRS, for example, yes, it would be a positive charge.
- Q. Okay. And you also believe that large energy-intensive customers derive little benefit from grid modernization programs, correct?
 - A. Yes. Large customers that take service

on the -- subtransmission and transmission voltages 1 2. effectively don't use the distribution system. They 3 have meters and maybe some customer billing, but they 4 don't use the distribution system. So, obviously, a 5 grid -- a distribution system modernization wouldn't 6 provide -- wouldn't really be associated with any 7 service that is provided to those customers. 8 0. Okay. And one way for large 9 energy-intensive customers to avoid the DMR charge is 10 to not implement the rider DMR, correct? 11 Α. Yes.

MR. SETTINERI: No further questions.

13 Thank you.

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14 EXAMINER ADDISON: Thank you,

15 Mr. Settineri.

16 Mr. Moore?

17 MR. MOORE: Thank you, your Honor.

18

19 CROSS-EXAMINATION

20 By Mr. Moore:

- Q. Good afternoon, Mr. Baron.
- 22 Α. Good afternoon.
- 23 Q. If I could have you turn to OEG
- 24 Exhibit 8, the workpaper for your rebuttal testimony.
- 25 Α. Yes.

Q. Ask you some questions on that. So this workpaper shows the data you relied on in your proposed cost allocation of staff's proposed rider; is that correct?

A. Yes.

- Q. If you could look at Footnote 2 of your workpaper, it states you relied on Case No. 07-551, Schedule E-4 to determine the distribution of revenue for FirstEnergy; is that correct?
 - A. Yes.
- Q. And that's Case No. 07-551-EL-AIR; is that right?
 - A. Yes.
 - Q. Now, the numbers you used as the distribution revenue for FirstEnergy, those were the proposed distribution revenue numbers in Schedule E-4 from Case No. 07-551-EL-AIR; is that right?
 - A. Yes, I believe so. And again, just to clarify, this schedule -- this Exhibit 8 is an illustrative calculation. I believe it's indicative but it's not meant to be an updated calculation of any particular rate, but the answer to your question is yes, I think I used the proposed. I can check my schedule, but I'm pretty certain I used the proposed.

MR. MOORE: Your Honor, I move to strike

everything after the word "yes." It's not responsive to my question.

EXAMINER ADDISON: Mr. Kurtz.

MR. KURTZ: Well, I think he was just explaining his answer for purposes of trying to help Counsel and clarity of the record.

EXAMINER ADDISON: I agree. I am going to deny the motion to strike.

- Q. (By Mr. Moore) So, Mr. Baron, the numbers from -- that you cite in Exhibit -- or excuse me, Footnote 2 are not the, quote, current revenue distribution numbers that were specified in Schedule E-4 of Case 07-551; is that correct?
- A. They are from the 2008 case, so they are not current, yes, that's correct.
- Q. But in the 2008 case there are proposed distribution revenue numbers and current distribution revenue numbers; is that correct?
 - A. Yes.

2.

- Q. And the numbers you used were the proposed distribution revenue numbers, correct?
- A. I believe -- yes, I believe that's correct.
- Q. Okay. Using this workpaper one could determine what the allocation for each rate class

would be under your proposed cost allocation methodology; is that correct?

- A. Under my proposed methodology? You are asking me is this workpaper indicative of how my proposed methodology would result in rates for different rate classes?
 - Q. Yes.

2.

- A. Yes, that is the purpose. It's supposed to be an indicative example of what those rates would be. As I tried to explain earlier, the -- if the -- if the staff's proposal were adopted and if the recommended -- my recommended allocation were adopted, then the proper way to implement that would be to use actual -- the most recent distribution revenues, actual.
- Q. Okay. Just to clarify how this worksheet is put together, I just want to run through some of the calculations here and see if we are understanding how this -- how this works out.

So the total revenue requirement allocation for an RS customer would be the sum of the RS rate class allocated revenue requirements for each utility; is that right?

A. The -- are you talking about the staff's distribution modernization rider revenue requirement

of 131 million?

2.

- Q. Yes.
- A. Okay. And then -- I'm sorry. Then your question is how -- what did I do? How did I allocate it? I'm -- I can go through and explain if you would like the process on the exhibit, but I don't want to jump to conclusions.
- Q. My question was the total revenue requirement allocation for an RS rate class customer would be the sum of the RS rate class allocated revenue requirements under each utility that you named; is that correct?
- A. Yes. The method that I'm presenting here first allocates the revenue requirement to operating companies and then allocates within each operating company following the same basic formulation,

 50 percent on distribution revenues and 50 percent on 4 CP demand. But if you wanted to determine the total residential allocation to all three companies, you would add up the residential amount for CEI, the residential amount for TE, and the residential amount for OE.
- Q. And so that would be the 30,157,016 plus the 18,665,915 plus the 9,012,556?
- A. Correct.

- Q. That would give you \$57,835,487?
- A. I haven't added it up.
 - Q. Subject to check.
 - A. I'll accept that.
- Q. So that amount, 57,835,487 would be the amount that FirstEnergy's residents would be allocated for each year of staff's proposed rider under your proposed allocation method; is that correct?
- A. That would be the total dollars, assuming it was 131 million, as the total amount that was authorized by the Commission.
 - Q. So the percentage share would be 57,835,487 divided by the total revenue requirement in staff's proposed rider of \$131 million, correct?
- 16 A. Yes.

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- 17 Q. That would be about 44 percent, subject to check?
 - A. I haven't done the calculation, but that sounds like it could be right.
 - Q. And the same procedure could be followed to calculate your proposed allocation for the rest of the rate classes as well; is that correct?
- 24 A. Yes.
- Q. Now, I could also determine what the

revenue requirement allocation for the residential rate class would be based on a 100-percent kWh allocation from your workpaper; is that correct?

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- A. That could be done. You could perform that calculation based on the megawatt-hours shown.
- Q. Right. So I would take the total residential megawatt-hours, which would be the sum of the 9,274,426, plus the 5,535,410 and the 2,507,806, which would give you 17,317,712.

MR. KUTIK: I think you meant to say "876."

MR. MOORE: Thank you, yes.

- Q. Would the 17,317,712, subject to check, is that correct for the total megawatts for the residential class?
- A. That looks roughly what I would get just eyeballing it. And that you're -- you're asking would that be the total megawatt -- yes, I think that looks roughly correct.
- Q. Okay. If I take that total and divide that by the total megawatts for FirstEnergy, 53,289,046, and then multiply that by the total Ohio revenue requirement of \$131 million, then, subject to check, I would get \$42,571,981; is that correct?
 - A. I haven't done the calculation, but I'll

accept your calculation for purposes of answering your question.

- Q. So if the costs from staff's proposed rider were allocated on the basis of kWh only, residential customers would be allocated \$42,571,981 per year for the three-year period, correct?
- A. Under the assumption, which I assume is implicit in your question, that not one penny would be allocated based on a rate class's distribution usage or revenue requirement.
 - O. Correct.

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- A. So that a transmission customer that doesn't use a distribution system would still be allocated based on its kilowatt-hours. That's what you are asking me to assume.
- Q. Yeah, based on straight kWh allocation, cost allocation.
- A. I'm willing to accept your calculation.

 Obviously, not the premise, but I accept the calculation.
 - Q. Thank you.

So -- and to determine what the cost allocation to the residential rate class would be under a straight revenue distribution allocation, you would just take the revenue requirement data that you

have listed for the residential rate class for all three utilities and multiply that number by 2, correct?

A. That's correct.

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- Q. That would give you, subject to check, about 73,333,432, correct?
 - A. That sounds roughly correct.
- Q. And the same procedure could be done to calculate the allocated revenue requirement for each rate class under a straight 4 CP demand cost allocation, correct?
- A. Yes, using the same approach that you just described, which is add up the dollars under the 4 CP column and multiply by 2.
- Q. And subject to check, that would give you about \$42,337,353 for the RS rate class, correct?
 - A. What was your number again?
- Q. \$42,337,353.
- A. That looks roughly in line with just my eyeballing the numbers.
- Q. We could also determine the cost per megawatt-hour for a residential customer from your workpaper, correct?
- A. Well, under my recommended allocation, the last column, in fact, shows the rate per

megawatt-hour for each rate class.

- Q. Correct. But that's per utility, correct?
- A. Yes. And you could take -- basically you could just take the dollars, you could take a weighted average of that among the three utilities.
- Q. If we take the total residential revenue requirement you confirmed earlier, the 57,835 -- 57,835,488, and you divide that by the total megawatt-hours for residential customers that you confirmed earlier, the 17,317,712, you get \$3.37 -- \$3.34 cents per MWh, correct?
- A. I haven't done that calculation. You want me to accept your calculation? I am happy to accept it. I haven't done it.
 - Q. Okay.
- A. I don't have it in front of me, put it that way.
 - Q. But that sounds about right, subject to check?
 - A. You would take -- if you want to calculate the weighted average under a -- under the 50 percent distribution revenue, 50 percent 4 CP, you would add up the 30 million for OE residential, the 18.7 million for CEI, the 9 million for TE, and then

you would divide that by the corresponding sum of the megawatt-hours for those three companies' residential class. And those dollars, divided by those megawatt-hours, would give you the effective weighted average rate, which would be somewheres in between the three rates that I'm showing. And what was your -- I don't recall now your result of your calculation?

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- Q. Right. You take the RS revenue requirement, \$57 million, divide that by the total megawatt-hours for residential customers that you confirmed earlier, the \$17 million, and you get \$3.34 per megawatt-hour; is that correct?
- A. Well, it's your calculation, but that —
 the number I have for OE is 3.25, \$3.25 per
 megawatt-hour; for CEI, it's \$3.37; and for TE, it's
 \$3.59. And the weighted average based looks like
 it would tend to weight towards OE. So your 3.34
 would logically it's not inconsistent with what I
 would eyeball as a weighted average.
- Q. Okay. Now, if we took the total revenue requirement for the residential class under the 100 percent kWh allocation we spoke about earlier, and you confirmed that number was \$42,571,981, and we divide that by the total MWh for the residential

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customers of 17,317,712, subject to check, you get about $2.46 per MWh; is that correct?
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that's the number that I show under the "Ohio Total" line. And if you were to do a straight energy allocation where you didn't look at anything else, distribution revenues whether rate class takes distribution service or not, every single customer would pay the \$2.46 which I showed there. So I think it's -- if I recall that's what your number was.

Well, that I can agree with because

MR. MOORE: If I could have just one minute, your Honor.

13 EXAMINER ADDISON: You may.

MR. MOORE: No further questions, your

15 Honor.

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16 Thank you, Mr. Baron.

17 EXAMINER ADDISON: Thank you, Mr. Moore.

Mr. Kutik?

MR. KUTIK: No questions, your Honor.

EXAMINER ADDISON: Thank you.

21 Mr. McNamee?

MR. McNAMEE: I have questions, but I

23 need a microphone. There. Am I on? Good.

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CROSS-EXAMINATION

2 By Mr. McNamee:

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- Q. Good afternoon, Mr. Baron.
- A. Good afternoon.
- Q. Some very straightforward questions for you; at least I hope they are straightforward.

Under your proposal, how much of the \$131 million revenue requirement which is a residential class is allocated to the residential class?

- 11 A. Well, I went over some of those 12 calculations. But if you look at -- the Exhibit 8 --
 - Q. I was hoping to get a number.
- A. I think -- I am going to add it up just so I'm --
- Q. I am going to ask you a number of questions just like this.
- 18 A. Approximately 57,800,000.
- 19 Q. Okay. How about the same question for 20 the GP class?
- A. Well, I have got to add them up. I get approximately 12.3 million.
- Q. Thank you. The same question for the GS class. I am sorry to make you do all this math.
- A. All the numbers you are asking me are on

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the schedule. It's just adding three numbers together, but if you want me to do it, I'm -- I can do it.
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- Q. I would appreciate it, yes.
- A. You are going to have me do every single rate class? That's going to take a while.
 - Q. Just GS and GT.

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- A. Okay. I am going to have to start again. Sorry.
- Q. I appreciate your patience, sir.

 EXAMINER ADDISON: Mr. Baron, would you

12 | like us to go off the record while you --

THE WITNESS: I'm sorry, your Honor?

EXAMINER ADDISON: Would you like us to

go off the record while you do the calculations?

THE WITNESS: It's just going to take

me -- I mean it's up to you, your Honor. Maybe that

would be the thing to do. Maybe I could be asked

what calculations he wants. I could do them and then

come back on the record.

MR. McNAMEE: Just those two, GS and GT.

MR. KUTIK: Are these questions

23 foundational? What's the point? We can all add.

MR. SETTINERI: Speak for yourself.

THE WITNESS: Okay. Your Honor, I'm

ready.

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- Q. (By Mr. McNamee) Great.
- A. GS, I calculated 43,932,171. GT, 12,299,789.
- Q. Perfect. Thank you.

You are aware, Mr. Baron, that in cross-examination Ms. Turkenton suggested an allocation approach that would allocate the revenue requirements based on 50 percent energy and 50 percent demand? Do you recall that?

- A. I don't recall it. I was informed by Counsel something to that effect. I don't have all the details, but I heard something like that.
- Q. Okay. Did -- excuse me. Did you perform an analysis of the allocation based on your understanding of Ms. Turkenton's suggestion?
- A. No. The first I heard of it was about an hour ago or hour-and-a-half ago.
- Q. Okay. All right. Okay. Let me clarify a couple of things here. You did not recommend charging all customers on a demand basis, right?
- A. No. The distribution modernization rider is related to distribution as I said. You could argue that all of it should be allocated on distribution revenues, but --

MR. KURTZ: I think Mr. McNamee was referring to the design aspect.

Q. Yes.

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- A. Oh. You are talking about the recovery within rate classes, yes.
 - Q. Yes.
- A. I did not, and I proposed as I -- sorry.

 8 I misunderstood.
 - Q. No problem.
 - A. I proposed a kilowatt-hour recovery within classes so that it would provide a balanced approach for higher- and lower-load factor customers within the class.
- Q. Okay. You are familiar with the concept of gradualism?
- 16 A. Yes.
 - Q. Okay. Would you agree with me that gradualism is important for all classes of customers?
 - A. Yes. I would agree.
 - Q. Okay. And the point of implementing gradualism is to avoid rate shock.
- 22 A. Yes. That's -- that's correct.
- Q. Okay. I only have a couple more questions.
- Do you think it's important to understand

the impacts of a rate design and allocation for all classes of customers before a rate is implemented?

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A. Yes. That's -- I mean, in part, that's a reason that I proposed a 50 percent distribution revenue, 50 percent 4 CP demand allocation. As I indicated, given that it's a distribution modernization rider and it would appear to be related to distribution function, the distribution function on the utility system, and, therefore, allocating all of the costs on distribution revenues could be justified. But as a balanced approach, I've recommended a 50 percent weighting.

In terms of rate shock, I think we had done -- at least I accepted, subject to check, a calculation earlier of the weighted average result that I'm recommending using my 50 percent -- 50/50 allocation for residential customers, for example, of \$3.34 a megawatt-hour. And we also went through that if it was a pure energy allocation, it would be \$2.46. That would be 100 percent energy allocation.

The difference between 3.34 and 2.46 is about 88 -- 88 cents a megawatt-hour, which, for a typical residential customer using 750 kilowatt-hours a month is about 65 cents.

So we're talking, you know, between the

approach that I am recommending and a 100-percent energy allocator, which is not what the staff witness had -- suggested, about a 65-cent impact per month on a customer bill. So we are not talking about huge dollars in terms of the impact -- I mean because you asked me about rate shock.

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MR. McNAMEE: Move to strike. I asked the question is it important to understand the impacts of rate design and allocation before rates are implemented, and I got a broad exposition about the witness's proposal.

MR. KURTZ: I believe he got a full and complete explanation of the impact on residential customers of his proposal versus a 100-percent energy proposal and he determined that it's relatively small, 65 cents a month, so I think it was just a complete answer.

EXAMINER ADDISON: Thank you. I tend to agree with Mr. McNamee. I think it was stretching it a little bit too much and I feel it's more appropriate to raise that type of commentary on redirect. So motion to strike is granted.

Q. (By Mr. McNamee) So let me ask the question again. Is it important to understand the impacts before -- of rate allocation before rates are

put in place?

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- A. Yes. I would think that's a fair consideration.
 - Q. And that's something the Commission should consider when it's making its decision?
 - A. Yes. I think that's fair.
 - Q. (By Mr. McNamee) I may be finished if I could have just a moment.
- 9 EXAMINER ADDISON: You may.
- MR. McNAMEE: That's all the questions I
- 11 have. Thank you, Mr. Baron. I appreciate your
- 12 patience.
- 13 THE WITNESS: Thank you.
- 14 EXAMINER ADDISON: Thank you,
- 15 Mr. McNamee.
- Mr. Kurtz, redirect?
- MR. KURTZ: Thank you, your Honor. Very
- 18 briefly.
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- 20 REDIRECT EXAMINATION
- 21 By Mr. Kurtz:
- Q. Mr. Baron, you were asked questions about
- 23 energy allocation of this distribution modernization
- 24 | rider; do you recall that?
- 25 A. Yes.

- Q. Okay. How many times have you testified?
- A. I've testified in about 335 cases. I had to do the calculation the other day. It's been 40 years; it's not like last week.
- Q. And how many of those cases involved cost of service revenue allocation type issues?
 - A. Well over 100.
- Q. And those 100 cases, I assume this is across the country?
 - A. Yes.

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- Q. Over 20, 30 states or so?
- 12 A. Yes. At least.
 - Q. Okay. In those over 100 cases, in at least 20 to 30 states, have you ever seen a Commission allocate distribution costs on the basis -- basis of energy usage?
 - A. No. I've never in my experience -- I have seen some proposals for that, but I've never seen -- I've never seen a utility propose it and I've never -- I am not aware of any regulatory Commission approving an allocation of distribution-related costs on the basis of energy.
 - It's simply distribution costs -- first of all, they would only be assigned to the rate classes that use the distribution system. So a

customer class like GT that takes service at transmission that does not use the distribution system wouldn't pay for secondary lines and primary lines and transformers and poles which are distribution-related costs. That's the grid -- that's the grid system that would tend to be modernized.

- Q. Now, there is a kilowatt-hour or an energy component to your rate design, correct?
 - A. Yes.

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- Q. Okay. And you described how that is a balance between the high- and the low-load factor customers within the same rate schedule?
- A. Correct. That's -- once the costs are allocated to the class, it would tend to balance the impact among various load factors within the class.
- Q. And as opposed to a demand charge for demand-metered customers, what type of customer does a kilowatt-hour rate design help? The high-load factor or the low-load factor customers?
- A. Because -- the answer is it would help the low-load factor customers. The very large manufacturing customers tend to have high-load factors and so those customers are going to -- all else being equal, they would be paying less under a

pure demand allo -- recovery, rate recovery. And so an energy recovery within the class helps lower-load factor, typically smaller customers.

- Q. And would you agree that this aspect of your rate design proposal actually hurts the OEG members who tend to be the higher-load factor customers within the rate schedules?
 - A. Yes. There's no question about it.
 - Q. And then why did you propose it?
- A. Again, because it was -- we are -- I tried to come up with a method that was balanced, that recognized -- that considered tradeoffs of rate impacts and cost causation and all of the factors that I really discuss.
- Q. I just want to walk through this one example that you were discussing earlier. The weighted average cost to the residential customers under your 50/50 proposal is \$3.34 per megawatt-hour?
 - A. Correct.
- Q. And if you went with 100-percent energy allocation, that's the bottom right hand corner number, 2.46, \$2.46 cents per megawatt-hour, correct?
 - A. Yes.

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Q. And that's the -- that's a difference of -- so if the residential customers pure -- if the

whole system was pure energy versus your proposal the residential customers would pay 88 cents per megawatt-hour less.

A. Correct.

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- Q. Okay. And the ample residential customer in Northern Ohio and FirstEnergy system uses about how much --
- A. It's my understanding about 750 kilowatt hours which are three-quarters of a megawatt-hour.
- Q. So the difference between your 50/50 proposal and 100 percent energy is how much to the typical residential customer per month?
- A. It would be about 66 cents difference on a customer's total bill.
- MR. KURTZ: Thank you, your Honor. No further questions.
- 17 EXAMINER ADDISON: Thank you.
- Mr. Dougherty?
- MR. DOUGHERTY: No questions.
- 20 EXAMINER ADDISON: Mr. Hays?
- MR. HAYS: No questions, thank you.
- 22 EXAMINER ADDISON: Mr. Darr?
- 23 MR. DARR: No questions. Thank you.
- 24 EXAMINER ADDISON: Ms. Ghiloni?
- MS. GHILONI: No questions.

1322 EXAMINER ADDISON: Mr. Mendoza? 1 2. MR. MENDOZA: No questions. 3 EXAMINER ADDISON: Mr. Settineri? 4 MR. SETTINERI: No questions, your Honor. 5 EXAMINER ADDISON: Mr. Moore? 6 MR. MOORE: No questions, your Honor. 7 EXAMINER ADDISON: Mr. Kutik? 8 MR. KUTIK: No questions, your Honor. 9 EXAMINER ADDISON: Mr. McNamee. 10 MR. McNAMEE: Got one. 11 12 RECROSS-EXAMINATION 13 By Mr. McNamee 14 Dr. Moore -- what am I saying? Q. 15 Dr. Baron. 16 Α. It's Mr. Baron. 17 I'm sorry. It's been a long day already. Q. 18 Do you know of any other instance in Ohio where the 19 50 percent base distribution revenue and 50 percent 20 demand or by demand 4 CP methodology you lay out has 21 been adopted in Ohio? 22 I -- I'm not aware one way or the other. I've not done that research so I don't know. 23 24 MR. McNAMEE: Okay. Fair enough. I 25 appreciate your patience. Thank you, sir.

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                 THE WITNESS:
                              Thank you.
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                 MR. McNAMEE: No more questions.
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                 EXAMINER ADDISON: Thank you.
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                 Examiner Price.
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                 EXAMINER PRICE: In preparing your
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     testimony, did you review how FirstEnergy delivery
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     capital recovery rider is allocated and how the rate
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     is designed?
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                 THE WITNESS: I did not -- I did not,
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     your Honor.
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                 EXAMINER PRICE: Okay. How about their
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     rider AMI?
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                 THE WITNESS: I -- I did not. I focused
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     simply on the nature of the characteristics of
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     what -- as I understood the staff's proposal which is
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     sort of a hybrid, I quess.
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                 EXAMINER PRICE: Fair enough. Thank you.
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                 EXAMINER ADDISON: I have no additional
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     questions. You are excused, Mr. Baron.
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                 THE WITNESS: Thank you, your Honor.
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                 EXAMINER ADDISON: Thank you very much.
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                 Mr. Kurtz.
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                 MR. KURTZ: Oh, your Honor, we move the
     admission of OEG Exhibits 7 and 8.
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                 EXAMINER ADDISON: Are there any
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 1
     objections to the admission of OEG Exhibits No. 7 and
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     8?
                 MR. McNAMEE: No objection.
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                 EXAMINER ADDISON: Hearing none, they
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     will be admitted.
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                  (EXHIBITS ADMITTED INTO EVIDENCE.)
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                 EXAMINER ADDISON: We will reconvene
     tomorrow at 9:15 a.m. We are adjourned.
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                  (Thereupon, at 1:59 p.m., the hearing was
 9
     adjourned.)
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CERTIFICATE I do hereby certify that the foregoing is a true and correct transcript of the proceedings taken by me in this matter on Thursday, July 21, 2016, and carefully compared with my original stenographic notes. Karen Sue Gibson, Registered Merit Reporter. Carolyn M. Burke, Registered Professional Reporter. (KSG-6224) 2.4

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

Summary: Transcript in the matter of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company hearing held on 07/21/16 - Volume VI electronically filed by Mr. Ken Spencer on behalf of Armstrong & Okey, Inc. and Gibson, Karen Sue Mrs.