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

INITIAL REHEARING BRIEF
BY
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I. Summary of the Case

On August 4, 2014, Ohio Edison Company ("OE"), The Cleveland Electric Illuminating Company ("CEI"), and Toledo Edison Company ("TE), collectively the "Companies," filed with The Public Utilities Commission of Ohio ("Commission") an Application for authority to establish a Standard Service Offer ("SSO"), pursuant to ORC 4928.143, in the form of an Electric Security Plan ("ESP IV") to become effective upon termination of the Companies ESP III on May 31, 2016.[1]

The Companies and signatory parties, including Material Sciences Corporation ("MSC"), as part of the proceeding, entered into "Prior Stipulations" constituting: the Stipulation and Recommendation filed with the Commission on December 22, 2014, as modified by the Stipulation and Recommendation Errata filed January 21, 2015; the Supplemental Stipulation and Recommendation filed on May 28, 2015; and the Second Supplemental Stipulation and Recommendation filed on June 4, 2015.[2] Further, the Companies, Commission Staff, MSC, and other signatory parties entered into a Third Supplemental Stipulation filed with the Commission on December 1, 2015. [3]

Evidentiary hearings on the Application and Prior Stipulations held from August 31, 2015 through October 29, 2015, subsequently followed by hearings on the Third Stipulation held from January 14, 2016 through January 22, 2016. Initial briefs filed with the Commission on February 16, 2016, and reply briefs on February 26, 2016. The Commission's Opinion and Order ("Order") rendered March 31, 2016. Thereafter, the Companies filed for rehearing from that Order on May 2, 2016 alleging in part the Commission's decision "unreasonable because it does

[1] Application, Companies' Ex. 1, Pg. 1-2
[2] Stipulation and Recommendation, Companies' Ex. 2; Stipulation and Recommendation Errata, Companies' Ex. 2a; Supplemental Stipulation and Recommendation, Companies' Ex. 3; and Second Supplemental Stipulation and Recommendation, Companies' Ex. 4
[3] Third Supplemental Stipulation Companies' Ex. 154

not reflect the ruling by the Federal Energy Regulatory Commission Order issued on April 27, 2016 in Docket Number EL16-34-000."[4] The Commission by Entry, dated May 11, 2015, granted rehearing to the Companies and other parties requesting rehearing. Hearings conducted from July 11, 2016 through August 1, 2016, during which the Companies, Staff, and other intervenors presented their witnesses, subject to cross examination, and introduced exhibits, which became part of the record upon admitted by the Attorney Examiners.

II. Retail Rate Stability Rider ("Rider RRS")

B. The Companies' Proposal Presented during Rehearing Modifies the Calculations Used by the Commission's Order Approving Rider RRS.

1. The Modified Calculation Eliminates the Need for a Purchase Power Agreement ("PPA") and the Use of Actual Costs and Revenues.

The Proposal's modifications of calculated costs and revenues benefit customers, and eliminate risks imposed by linking the PPA to Rider RRS. The Stipulated ESP IV, relied upon by the Commission in its Order to approve these stipulations, not changed by the Proposal. The statutory ESP v. Market Rate Offer ("MRO") test continues to meet Commission identified objectives in its Order. The Commission's Order approving Rider RRS, as modified by the Proposal, along with approval of stipulations and of other aspects of Stipulated ESP IV, accelerates the straightforward process to timely provide for the contemplated benefits. [5]

The approved Stipulated ESP IV provides Companies' customers with wide-ranging quantitative and qualitative benefits. Those benefits include rate stability to protect consumers from rate volatility, price fluctuations, and long-term retail price increases; grid modernization through deployed advanced technology and procurement of renewable energy resources; support of low-income customers, reactivate and expand energy efficiency programs, and promote

[4] Companies' Application for Rehearing, dated May 2, 2016, Par. 8, Pg. 2.
[5] Ms. Mikkelsen , Rehearing Testimony, Companies' Ex. 197, Pg. 2, LN 1-6

competition through competitive providers enabled to offer innovative products to serve customers' needs. [6]

The Commission's Order describes the operation of Rider RRS as a form of rate insurance since customers pay a charge when market prices at current levels, but receive a credit to mitigate bill increases when prices rise above current levels. [7]

The Stipulated ESP IV, as modified by the Commission, promotes rate stability for all Ohio ratepayers by protecting against volatility and price fluctuations. The Commission, upon reliable record evidence in this case, determined that Companies' customers receive an aggregate $561 million credit (in nominal dollars), over the ESP IV eight-year term. Likewise, based on a United State Energy Information Administration ("EIA") Reference case, Rider RRS, during the ESP IV, provides customers with a projected $256 million credit.[8]

The Commission Order approved charges and credits for Rider RRS based on a Purchase Power Agreement ("PPA") between the Companies and FirstEnergy Solutions. ("FES"). Under the PPA, the Companies intended to purchase, then sell into the wholesale markets, the FES output from its W.H. Sammis plant ("Sammis") and the Davis-Besse nuclear power station ("Davis-Besse"), along with FES entitlement to the output from generation plants operated by the Ohio Valley Electric Corporation ("OVEC") (collectively the "Plants."). Under the Commission, the Companies intended to net payments to FES with revenues received from the sale of FES generation output into the wholesale market.[9]

However, shortly after the Commission Order, the Federal Energy Regulatory Commission ("FERC"), on April 27, 2016, in Docket Number EL16-34-000, issued a FERC

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[6] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 2, LN 7-23
[7] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 3, LN 3-7, reference Order, Pg. 80
[8] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 3, LN 8-16, reference Order, Pgs. 78, 79, 81, 85,
[9] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 3, LN 22-25; Pg.4, LN 1-4

Order rescinding the long standing affiliate waiver granted FES, thereby requiring FES to receive prior FERC approval for affiliate sales of electric energy or capacity with the Companies.

Upon due deliberation, in light of the FERC Order, the Companies presented the Proposal for rehearing that modified the calculations of charge and credits used in the Commission's Order approving Rider RRS. The Companies' Proposal beneficially provides all the rate stabilization benefits recognized in the Order, but without the modified Rider RRS relying on the PPA, other contractual arrangement, or further involvement of FES. [10]

The Proposal modifies the calculation of costs and revenues in the Rider RRS approved by Commission Order by replacing actual costs with costs already admitted into the record as evidence, and relied upon by the Commission in this case; replacing actual generation output with the generation output already admitted into the record as evidence, and relied upon by the Commission in this case; and further replacing actual capacity (MWs) cleared in the PJM capacity market with capacity (MWs) projected to clear already admitted into the record as evidence, and relied upon by the Commission in this case. As before, capacity MWs applied to actual base residual auction ("BRA") pricing. Proxy revenues for ancillary services and environmental attributes based on information in the record, and relied upon by the Commission.[11]

2. The Modified Rider RRS under the Proposal More Reliably Hedges Against Market Price Increases.

The modified Rider RRS under the Proposal more reliably hedges against market price increases by using assumed Plant costs as a proxy for costs associated with fuel-diverse baseload

[10] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 5, LN 14-18
[11] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 5, LN 8-15

generation assets, an improvement since the originally-proposed Rider RRS reconciled to actual Plant costs. [12]

Instead of customers exposed to risks under Rider RRS passed through unexpected cost increases at the Plants, the modified Rider RRS uses costs in the record already determined reasonable by the Commission to hold constant the cost-side of the hedging mechanism. Further, customers not exposed to associated risks of extended outages, or other similar concerns involving the Plants, since the Proposal uses the generation output (MWhs) and cleared capacity (MWs) included in the record and relied upon by the Commission in reaching its decision.[13]

Since the modified rate stability mechanism no longer relies on a PPA, or other contractual arrangements, Customers under the modified Rider RRS benefit from the hedges without risking changes in Plant costs, operating levels, or other operational or market performance.[14]

3. Benefits of the Proposal

The Proposal preserves Stipulated ESP IV customer benefits and allays concerns over FES involvement in Rider RRS determinations. The lock-in of cost and generation assumptions eliminate concerns over extended outages, capital spending levels, operating costs exceeding projections, retirement of Plants, with or without legacy costs, and the risks and cost of environmental compliance.[15]

4. All Other Elements and Benefits of the Stipulated ESP IV Remains as Approved by the Commission.

[12] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 5, LN 15-22
[13] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 5, LN 22-23; Pg. 6 LN 1-8
[14] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 6, Ln. 9-14
[15] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 6, Ln. 15-23; Pg. 7 LN 1-2

All other elements and benefits of the approved Stipulated ESP IV remain unchanged as the Commission previously approved. The Companies remain obligated to fulfill the remaining terms, conditions, and commitments set forth in the approved Stipulated ESP IV. The multiple quantitative and qualitative benefits of Stipulated ESP IV remain unaffected, such as the $100 million risk sharing mechanism, the grid modernization and resource diversification initiatives, the base distribution rate freeze, programs to preserve and enhance rate options for customers, and support for retail competition. Moreover, the Commission-ordered mechanism limiting average customer bills provides additional customer protections.[16]

No changes made to the Proposal's Rider RRS rate design as to the revenue requirement allocation to each of the Companies, each rate schedule, and each rate schedule billing. The annually filed modified Rider RRS uses forward energy price forecasts, and ATSI Zone capacity prices. The modified Rider RRS trues up quarterly to reconcile projected and actual energy revenues, based on actual monthly average on-peak and average off-peak day-ahead locational marginal price ("LMPs") at the AEP-Dayton ("AD") Hub, and reconciles actual sales and billing demands with projected amounts.[17]

Reconciliation of the modified Rider RRS costs unnecessary because costs remain unchanged. The development of forecasted annual energy revenue by the Companies uses the annual generation output values from the hearing record. Projected energy revenue reconciled to actual energy pricing in the quarterly true-ups. Capacity revenue, based on the MWs of capacity assumed to clear based on the record, multiplied by the applicable capacity price for generation in the PJM ATSI zone for the delivery year. Capacity revenues not reconciled since cleared

[16] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 7, Ln. 3-11.
[17] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 7, Ln. 12-22.

MWs of capacity do not change. Prices paid for capacity known at the time of Rider RRS development do not change during the delivery year. [18]

Customers continue to receive all benefits of the Stipulated ESP IV, as modified by the Order. However, the modified Rider RRS charges and credits no longer reconcile to actual Plant costs. The Companies do not sell actual Plant output into PJM markets. Certain stipulated provisions either unneeded or requires different implementation; such as FES's actual cost data irrelevant; while FES fleet information not needed by the Staff under the "full information sharing" provision of Section V.B.3.b. of the Third Supplemental Stipulation. [19]

Further, review process simplification expected by the Companies under Section V.B.3.a., Third Supplemental Stipulation, because no actual audit costs or offer strategies to review. Also, annual compliance reviews, within Section .B.3.a., of the Third Supplemental Stipulation, assessing the Companies' participation in PJM markets in relation to the PPA, not necessary because the market revenue included in Rider RRS based on assumed MWhs and MWs already in the record. Finally, the early termination provision in Section V.B.1., Third Supplemental Stipulation, inapplicable because the modified Rider RRS does not depend upon specific PPA generation units. [20]

5. The Modified Rider RRS under the Proposal Provides the Same Benefits as the Originally Approved Rider RRS.

The Commission's three-prong test conclusions in the Order not impacted because the Proposal modifies only the Rider RRS calculation without amending the stipulations.[21] The modified Rider RRS provides all the benefits of the Commission originally approved Rider RRS, along with additional benefits as well because, as modified, still operates as a form of rate

[18] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 8, Ln. 3-13
[19] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 8, Ln.16-18
[20] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 9, Ln. 4-13
[21] Ms. Mikkelsen , Rehearing Testimony, Companies' Ex. 197, Pg. 10, LN 3-5.

insurance for the Companies' customers. Customers pay charges under Rider RRS for power prices at currently low levels; conversely, customers receive credits during rising power prices to offset those prices. [22]

The modified Rider RRS effectively stabilizes or provides certainty to retail electric service. The modified Rider RRS remains a term, condition or charge, and operates as a financial limitation on the consequences of customer shopping related to bypassability and default service. [23]

The modified Rider RRS provides additional customer benefits by eliminating risks to customers associated with changes in operating and capital costs, or changes in Plant operating performance.[24]

Further, unfounded intervenor criticisms related to the PPA construct now moot, regardless of the merits, with regards to adverse market impacts, such as price suppression, new market entry deterrence, and impacts on the benefits of energy efficiency and peak demand reduction programs.[25]

The modified Rider RRS leaves unaltered the benefits the Commission relied upon in reaching its Stipulated ESP IV decision, while through its design, those benefits, under that modified rider, expected to include fixed costs and fixed levels of annual generation output and clearing capacity in PJM auctions. [26]

The underlying generation output assumptions used going forward for developing Rider RRS shaped based on the economic dispatch model derived generation output projections relied

[22] Ms. Mikkelsen , Rehearing Testimony, Companies' Ex. 197, Pg. 10, LN 6-15
[23] Ms. Mikkelsen , Rehearing Testimony, Companies' Ex. 197, Pg. 10, LN 15-21
[24] Ms. Mikkelsen , Rehearing Testimony, Companies' Ex. 197, Pg. 10, LN 15-21
[25] Ms. Mikkelsen , Rehearing Testimony, Companies' Ex. 197, Pg. 10, LN 21-22; Pg.11, LN 1-2
[26] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 11, LN 3-9

upon in this proceeding. Consequently, the generation output in the calculation of Rider RRS varies by month, and differs between on-peak hours and off-peak hours.[27]

6. The Proposal Provides No Cash to FirstEnergy Solutions.

Rider RRS implementation solely the Companies responsibilities. There are no contracts or other agreements between the Companies and FES requiring the share of revenues or expenses of modified Rider RRS. [28]

The Companies benefit from revenues collected because projected cash collected during the first years under Rider RRS could fund needed capital expenditures for distribution grid through advanced metering infrastructure, distribution automation, and Volt/Var controls. Also, those funds may invest in battery resources and/or to invest in new Ohio renewable resources.[29]

7. Reasons for the Proposal.

Proposal made because of a strong interest in the vitality of the Companies' service territories, and their historic support of economic development in Ohio. Rider RRS promotes economic development by mitigating future increases and volatility; operates as a retail rate stabilization mechanism to provide retail price protection to customers from longer-term market trends; and the stabilization mechanism provides retail price stability, certainty and predictability over the long term to all customers. Rate volatility and retail price predictability important to customers, including large industrial customers who want stable and predictable pricing when making important site location and site expansion decisions, large capital investments, and to make employment decisions. Rider RRS also benefits local, state and regional economies by

[27] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 11, LN 10-16
[28] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 11, LN 17-23
[29] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 12, LN 1-7

retention and growing the industrial base which contributes to the economic vitality of the region.[30]

Also, funds available from Rider RRS support state-of-the-art advancements such as grid modernization and/or battery technology.[31]

Rider RRS needed to ensure continuation of the economic value of the Commission approved Stipulated ESP IV for the Companies and its customers. Stipulated ESP IV includes a risk sharing element assuring inclusion in that rider of at least $100 million in credits, a commitment to freeze base distribution rates through the entire eight-year term, a significant commitment to resource diversification initiatives, including the goal to reduce CO2 emissions, and other provisions supporting economic development, energy efficiency and low-income customers.[32]

8. Certain Provisions of the Order now Inapplicable

Some provisions of the Commission's Order no longer apply because the Proposal operates without needed reference to the PPA or involvement of FES plants. The Commission requested to withdrawal these unnecessary provisions:

1. Without the PPA or contractual arrangement with FES, Commission directed unneeded at page 86 for the Companies to file Rider RRS and finalize with FES a PPA based upon the Term Sheet construed as voluntarily accepted mechanism to limit average customer bills.

2. On page 91 of the Order, the Commission adopted the proposed risk sharing mechanism by referring to "net revenues from the output of the generating units" and "costs of the generating units.[33] However, calculation of the risk sharing mechanism, which remains intact, refers to the Stipulation without reliance on actual revenues and costs of the Plants.

3. On page 92 of the Order, the Companies required to bear the risk of capacity performance non-performance charges. The Companies' Proposal no longer incurs non-

[30] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 12, LN 8-21
[31] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 12, LN 22-23
[32] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 13, LN 1-10-
[33] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 12, LN 22-23: Pg. 13, LN 1-23

performance charges because MWs of capacity not offered into the capacity auctions. Language unneeded to prohibit the Companies from recovering non-performance charges under Rider RRS.

4. On page 92 of the Order, the Commission reserved the right to prohibit recovery of costs related to any unit exceeding 90 days for any forced outage during the Stipulated ESP IV term. Since a PPA not under the Proposal, this reservation of rights unneeded.

5. On page 92 of the Order, the Commission's reservation of rights to reevaluate and modify the Stipulations if PJM's tariffs or rules prohibit offering the Plants into PJM auctions not needed under the Proposal because the 3,200 MW hedge not tied to particular plants, nor are the MWs offered into the capacity auctions.

6. The Order adopts provision of the Third Supplemental Stipulation allowing for Commission termination of the specific charge/credit of Rider RRS applicable to any Plant generation unit upon its sale or transfer pursuant to Revised Code 4905.26. The rate stability mechanism not tied to the Plants, but representative of generic fuel diverse baseload units. [34]

9. ESP v. MRO Test.

The charges or credits from Rider RRS not included in the annual Significantly Excessive Earnings Test ("SEET"). The originally designed and subsequent Commission approved Rider RRS intended for no net financial impact on the Companies, nor an impact on the Companies' annual SEET results during Stipulated ESP IV. The proposed Rider RRS modifications intend to maintain the Commission's recognized benefits to customers. However, the proposed modifications results in Rider RRS no longer revenue neutral to the Companies. The Proposal excludes all revenues and expenses associated with Rider RRS from the Companies' SEET calculation as a special item, consistent with the Commission's Order in Case No. 09-786-EL-UNC. The Order remains in balance by ensuring that customers receive the Rider RRS benefits, without impacting the Companies' annual SEET calculation. After considering, on a quantitative basis, the impact of the modified Rider RRS calculation on the ESP v. MRO Test, Stipulated ESP IV remains quantitatively more favorable when compared to the expected results of an

[34] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 14, LN 1-3; Pg. 14, LN 14-23; Pg. 15, LN 1-2

MRO**.** The Commission's Order found that the estimated Rider RRS provides significant quantifiable benefits to customers. The Companies' analysis, relied upon by the Commission, remains unchanged since the modified Rider RRS calculation designed to produce the same or very similar results for customers. In the Order, the Commission found that Rider RRS estimated to provide significant quantifiable benefits to customers. [35]

The modified Rider RRS calculation does not impact the Companies' analysis that the Commission relied upon its Order. The modified Rider RRS calculation designed to produce the same or very similar results for customers. The Order of the Commission did not include quantifiable benefits associated with economic development, job retention, or avoided transmission investment arising from the Economic Stability Program. The Commission, however, identified [36]several other factors in its quantitative analysis of Stipulated ESP IV compared to an MRO, none of which changed as a result of the Companies' Proposal. The Order also recognized quantitative customer benefits from shareholder funding for economic development, low income customers, and a customer advisory agency, totaling $51.1 million over the Stipulated ESP IV term, all of which remain intact. Therefore, Stipulated ESP IV is still more favorable quantitatively compared to the expected results of an MRO. [37]

The Commission's determinations do not impact the Proposal. The AEP factors only apply to PPA-type construct, not the modified Rider RRS. The Stipulated ESP IV, including the Proposal, continues, as previously discuss, to provide reliability, supply diversity and economic development benefits.[38]

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[35] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 18, LN 1-14
[36] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 18, LN 15-23
[37] Ms. Mikkelsen Rehearing Testimony, Companies' Ex. 197, Pg. 18, LN 15-23; Pg. 19, LN 1-6
[38] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 19, LN 7-11

The impact on a qualitative basis of the modified Rider RRS calculations on the ESP and MRO test previously discussed. In the Order, the Commission acknowledged that Rider RRS provides qualitative benefits to customers by protecting against rate volatility and price fluctuations, while promoting rate stability.[39]

These qualitative benefits further enhanced under the modified Rider RRS calculation which, by design, provides even greater rate stability to customers. The modified calculation provides customers with greater certainty around the costs and revenues used in the Rider RRS calculation, including MWh output and MWs of capacity. These variables provide no volatility risks due to unplanned outages, unexpected cost increases, or the Plants not clearing in the PJM capacity auctions. Further, the modified Rider RRS calculation impacts none of the other qualitative benefits of Stipulated ESP IV relied upon by the Commission in its Order. These qualitative benefits include, but are not limited to:[40]

- Protection of consumers against rate volatility and price fluctuations by promoting rate stability for all ratepayers in this state;

- Modernization of the grid through the deployment of advanced technology and procurement of renewable energy resources;

- Promotion of competition by enabling competitive providers to offer innovative products to serve customers' needs;

- Continuation of the distribution rate increase freeze until June 1, 2024, to provide rate certainty, predictability, and stability for customers;

- Continuation of multiple rate options and programs to preserve and enhance rate options for various customers provided in previous ESPs;

- Establishment of a goal to reduce CO_2 emissions by FirstEnergy Corp. with periodic reporting requirements;

- Reactivation and expansion of energy efficiency programs previously suspended by the Commission, with a goal of saving 800,000 MWhs of energy annually;

[39] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 19, LN 12-16
[40] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 19, LN 16-22; Pg. 20 LN 1-2

 Programs to promote the use of energy efficiency programs by small businesses pursuant to state policy set forth in R.C. 4928.02(M); and

 Commitments to: (1) modernize distribution infrastructure through the filing of a business plan for the deployment of smart grid technology and advanced metering infrastructure in accordance with Ohio policy set forth in R.C. 4928.02(D); (2) promote resource diversity by investing in utility scale battery technology and, potentially, by procuring additional renewable energy resources; and (3) transition to a SFV rate[41] design, which balances the elimination of disincentives for the Companies to promote energy efficiency and conservation programs with the promotion of the principle of cost causation.

Therefore, Stipulated ESP IV remains more favorable qualitatively than the expected results of an MRO.[42] The Stipulated ESP, including the modified calculation of Rider RRS, more favorable in the aggregated than the MRO expected results. The modified Rider RRS calculation maintains the quantitative benefits of the Stipulated ESP IV recognized by the Commission and enhances the qualitative benefits of Rider RRS discussed in the Order. Therefore, Stipulated ESP IV is still more favorable in the aggregate than the expected results of an MRO.[43]

III. The Distribution Modernization Rider ("Rider DMR")

A. The Proposal Provides Customers with the Most Benefits.

1. The Proposal as a Hedge Benefits Customers.

The Proposal designed as a hedge to protect customers against volatile and increasing retail prices. In that context, Rider RRS originally approved, then modified by the Proposal, promotes rate stability by protecting consumers against rate volatility and price fluctuations as the Commission's Order found at Pg. 118. Rider RRS originally approved, and modified by the Proposal, provides no subsidies to stabilize the Companies, nor protects the Companies against

[41] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 19, LN 16-22; Pg. 20 LN 3-23
[42] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 19, LN 16-22; Pg. 21 LN 1-5
[43] Ms. Mikkelsen, Rehearing Testimony, Companies' Ex. 197, Pg. 19, LN 16-22; Pg. 21 LN 6-12

financial harm as SSO services further transition to market-based pricing, and generation asset separation. The Companies for the 2009 ESP, and successive ESPs, procured their SSO supply under the Commission's competitive bid process. Before competitive bidding began, the Companies' title to all non-nuclear generating facilities transferred to FirstEnergy Generation Corp., effective October 24, 2005, and their title to all nuclear generating facilities transferred to FirstEnergy Nuclear Generation Corp., effective December 16, 2005. [44] The Companies, among major utilities, became the first to transfer generation assets, and the only "major" EDU with asset transition completed before S.B. 221 in 2008.[45]

No "transition" occurred for the Companies to collect transition costs through Rider RRS, as originally approved, or as modified by the Proposal. Moreover, the Commission determined that "Rider RRS will generate $256 million in net revenue over the eight-year term of ESP IV". Rider RRS, as originally approved and as modified by the Proposal, not a transition charge since net credits projected over the ESP IV term. For years that the Proposal projects a charge, specific generation plants not supported by the Companies customers; rather, hedges provided under the modified Rider RRS to protect consumers against increasing and more volatile retail prices. [46]

The Proposal benefits customers significantly more than an arguably properly designed Rider DMR. The Proposal and Rider DMR both promote economic development and job retention. However, the Proposal additionally provides retail rate stability by mitigating retail

[44] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206 , Pg. 3, LN 13-22; Pg. 4, LN 1-2
[45] Ms. Mikkelsen, Rebuttal-Surrebuttal, Testimony, Companies' Ex.206 , Pg.4, FN 3
[46] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206 , Pg. 4, Ln 7-10

rate increases and volatility. Further, the Proposal ensures that benefits of the Commission-approved Stipulated ESP IV remain intact. [47]

2. The Public Interest Arguably Benefits from a Properly Designed Rider DMR.

While the Proposal provides the greatest benefits to customers, Rider DMR properly designed also benefits the public by providing the Companies with credit support to jump-start distribution grid modernization initiatives by receiving more favorable terms when accessing the capital market.[48]

The ESP can appropriately consider a Rider DMR in regards to the Companies' distribution service, single issue rate-making, incentive ratemaking, and functioning as an economic development and job retention program. [49]

Rider DMR jump-starts the Distribution Grid Modernization by providing credit support for the Companies to fund investments, either through capital support or through access to the capital markets under more favorable terms to modernize the distribution system, prepare that system for integration with smart grid technologies, or to evaluate and possibly integrate battery technology. Modernization of the distribution system focus significant investments on rehabilitation of urban area network systems, replacement of underground cable, and upgrade of overhead circuits and substation equipment. These conversions and equipment upgrade projects benefit the Companies and their customers in terms of reliability, safety, and customer satisfaction. [50]

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[47] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206, Pg. 4, Ln 11-18
[48] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206, Pg. 5, Ln 5-9, FN 6
[49] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206, Pg. 5, Ln 9-12
[50] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206, Pg. 5, Ln 13-23

3. Rider DMR Arguably Provides the Companies with Credit Support.

To prepare the distribution system for integration with advanced technologies, the Companies need to undertake significant investments in technologies and equipment related to distribution circuits, network technologies, advanced distribution management systems, and other information technology processes. Completion of such projects allow full utilization of advanced technologies. Ultimately, grid modernization benefits customers and competitive suppliers by enabling an array of innovative products and services. Therefore, the opportunity has merit to provide the Companies with cash and credit support through a mechanism such as Rider DMR.[51]

The Companies access capital markets for a variety of reasons such as cash needed for debt redemption requirements which exceeds one billion dollars through 2024, and for funded capital expenditure programs such as distribution grid modernization initiatives. As such, the Companies compete with numerous other businesses for investor dollars.[52]

The Companies' competition for investor dollars faces challenges since one notch above non-investment grade based on the ratings systems used by Moody's Investor Services ("Moody's"). The Issuer's Ratings for both CEI and Toledo Edison are at Baa3. Ohio Edison rated Baa1, three notches above non-investment grade. All the Companies considered medium grade with some speculative elements, and moderate credit risk. The Companies ratings influenced because the parent, FirstEnergy Corp., also rated Baa3, one notch above non-investment grade. If the Companies, or FirstEnergy Corp., unable to maintain adequate financial metrics for investment grade ratings, a negative rating action may follow, causing the Companies

[51] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206, Pg. 6, Ln 1-9
[52] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206, Pg. 6, Ln 10-16

to fall below investment grade which, in turn, subjects the Companies and their customers with negative consequences.[53]

A non-investment grade signals significant credit risks to the capital markets, perhaps leading to immediate disqualification of a company from competing for some investors' dollars. Typically, investors invest only in investment grade companies. The investor pool for non-investment grade companies typically comprised of speculative high-yield investors. The high-yield market closes first during periods of market volatility. Maintaining an investment grade rating enables a company to continue seeking capital from investment grade investors, like insurance companies, who tend to buy and hold. A downgrade to noninvestment grade limits a company's access to capital with more restrictive terms and conditions, such as requiring a pledge of security and more rigid financial covenants, which limits a company's financial flexibility during uncertain periods. [54]

A downgraded company must access capital from a less liquid market, at higher borrowing costs, on more onerous terms and conditions, causing its long-term cost of debt to increase. Eventually, increases in the long-term cost of debt recovered from customers in a distribution base rate case. During a distribution base rate freeze, higher debt carrying costs reduce funds available for the Companies to invest in a safe, reliable operation of the distribution system.[55]

In addition, a downgrade may negatively impact existing borrowings and other contracts giving rise to collateral requirements. Additional cash calls erode liquidity, and make less available cash for the Companies' business operations. A downgrade may also trigger more

[53] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206, Pg. 6, Ln 17-23; Pg. 7 LN 1-5
[54] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206, Pg. 7 LN 8-18
[55] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies'Ex.206, Pg. 7 LN 18-21; Pg. 8. LN 1-3

stringent terms in existing agreements, such as a shortened period to pay invoices. As the cost of doing business goes up, customers ultimately impacted.[56]

Rider DMR appears to address these challenges in a number of ways. Rider DMR provides credit support to the Companies. Rider DMR dollars collected by the Companies improve their Cash From Operations pre-Working Capital (“CFO”) to Debt (“CFO to Debt”) credit metric, one of the factors Moody’s considers as part of its rating methodology. To the extent dollars collected reduces debt or funds pension obligation, the Companies’ Debt to Capitalization credit metric improves, with that improvement another one of the rating factors Moody’s considers as part of its rating methodology. Further, Rider DMR likely viewed favorably by Moody’s assessment as part of its rating methodology within the regulatory framework the Companies operate. Rider DMR credit supports the Companies’ access to the capital markets, and enables the Companies to access capital on more favorable terms. Access to capital on more favorable terms lowers the cost of capital passed through to customers over time. In addition, the Companies could use Rider DMR cash to invest in distribution grid modernization, redeem debt, to fund the pension or to fund other grid modernization initiatives such as battery technology. [57]

B. Rider DMR Calculated Amounts.

1. Rider DMR Needs Changes to Jump-Start Grid Modernization

Staff’s objectives not entirely achievable based on calculations needed for the proposed Rider DMR. The Companies believe changes needed to Mr. Buckley’s calculated Rider DMR amounts, and assumptions used in the Staff’s calculations. To accomplish Staff’s objectives and

[56] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies’ Ex.206 , Pg. 8 LN 4-9
[57] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies’ Ex.206 , Pg. 8 LN 10-23; Pg. 9 LN 1-4

enable the Companies to jump-start grid modernization and benefit customers, these changes needed:

1. The target goal for CFO to Debt should be 15%, rather than 14.5%;
2. The calculation of Rider DMR revenue should use a three-year average from 2012- 2014 instead of a five-year average;
3. To achieve the goal of a 15% CFO to Debt, it is necessary to use pre-tax revenues;
4. An allocation factor of 40% should be used.[58]

Mr. Buckley's analysis used information from January 2016. However, Moody's more recent opinion issued April 28, 2016 gives a target range of 14-16% for CFO to Debt. Following the Staff's methodology, the resulting midpoint becomes 15%, rather than 14.5%. Therefore, the Companies recommend 15% appears reasonable.[59]

The Companies need Rider DMR revenue based on a three year average from 2012-2014. The Staff's five year average uses methodology too far into the past, while ignoring a worsening trend for the CFO to Debt at FirstEnergy Corp. beginning in 2012 and continuing through 2014 as evident from viewing the table on page 4 of Buckley's testimony. Given a clearly deteriorating situation, an average based on historic factors preceding the trend ignores the purpose of the calculation methodology used for Rider DMR. In 2011, the first year of Mr. Buckley's five-year range shows that FirstEnergy Corp.'s CFO to Debt at 14%. Since already in Staff's target range of 14-15%, this first year needs exclusion. In addition, exclusion of Mr. Buckley's 2015 comparison needed because of the anomalously result of a one-year spike in capacity prices in the ATSI zone, and not a comparable 12-month period ending December 31, 2015. A three-year range, beginning in 2012 (the year when FirstEnergy Corp.'s CFO to Debt first fell below Moody's 14-16% target range), more accurately reflects FirstEnergy Corp.'s

[58] Ms. Mikkelsen, Rebuttal-Surrebutta Testimony, Companies' Ex.206, Pg. 9 LN 6-22
[59] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206 , Pg. 10 LN 1-4

circumstances, and more accurately addresses the objective of facilitating the Companies' access to capital markets to jump-start distribution grid modernization initiatives.[60]

Pre-Tax revenues needed to achieve the goal of a 15% CFO to DEBT. Rider DMR revenues generate additional income for the Companies that result in more income taxes. Income taxes that relate to normal business operations affect a company's cash flow, and, in turn, it's CFO to Debt. Therefore, Rider DMR annual revenue calculated under Mr. Buckley's methodology should gross-up for income taxes. Otherwise, Rider DMR falls short of achieving the target CFO established by the Staff. Accordingly, Mr. Buckley's calculation needs modification to reflect the average tax rate for the Companies of approximately 36%:

Annual Rider DMR Revenue = Annual CFO Shortfall / (1 – Tax rate)

This formula more appropriately allows the Companies to receive the full cash flow benefits because gross-up of revenues to cover income taxes a well-established ratemaking practice. [61]

A 40% allocation factor needed. Mr. Buckley's uses of a 22% allocation factor, based on the Companies' share of FirstEnergy Corp. energy operating revenues in 2015, which inappropriately understates the significance of the Companies to FirstEnergy Corp. The use of gross operating revenue is an inappropriate, misleading indicator. Reported operating revenue heavily influenced by the level of generation shopping in the service territory. If customers shop for generation services their generation related revenue not included in the operating revenues of the utility. Conversely, if customers receive SSO generation services from the utility their

[60] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206 , Pg. 10 LN 5-22
[61] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206 , Pg. 11 LN 1-13

generation related revenues included in the utilities' operating revenue. The Staff proposal reduces the Companies' shortfall contribution because higher shopping levels, compared to other FirstEnergy Corp.'s utilities, lower the Companies' operating revenues and the allocation percentage. This allocation results in higher shopping impacts inconsistent and inappropriate with state policy. [62]

Further, energy operating revenues recognize gross cash inflows without an offset for cash flows from expenses. The CFO in the CFO to Debt metric nets the cash inflows and cash outflows. The use of net income is a more appropriate allocation factor for the reasons described above. Based on 2015 net income (as shown on Mr. Buckley's Attachment 1), Ms. Mikkelsen recommends an allocation factor of 40% rather than Mr. Buckley's allocation factor of 22%. [63] As illustrated in Figure 1, the annual amount of Rider DMR, with the adjustments described, equals $558 million with Tax Gross Up.[64]

2. The Staff Under Rider DMR Requires that Corporation Headquarters and Nexus of Operations Remain in Akron, Ohio during the ESP IV Entire Term.

The $558 million calculated amount under Rider DMR fails to recognize other significant benefits resulting from the Staff imposed condition that FirstEnergy Corp. must keep its corporate headquarters and nexus of operations in Akron, Ohio during the entire term of ESP IV. This commitment results in significant annual economic benefits to the State of Ohio, in terms economic development and job retention according to Companies' witness Sarah Murley. [65]

Rider DMR provides credit support to the Companies and FirstEnergy Corp., and helps jump-start distribution grid modernization. A higher Rider DMR value needed because Mr.

[62] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206 , Pg. 11 LN 14-22; Pg. 12 LN 1-5
[63] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206 , Pg. 11 LN 14-22; Pg. 12 LN 12-17
[64] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206, Pg. 12 LN 20-21; Pg. 13 LN 1-4
[65] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206 , Pg. 13 LN 6-15

Buckley's proposal requiring that FirstEnergy Corp. continue to keep its corporate headquarters and nexus of operations in Akron, Ohio fails to recognize its economic value to the state of Ohio. Consequently, Commission approval should increase the Rider DMR because of the imposed condition regarding the FirstEnergy Corp. headquarters and the nexus of operations. [66]

3. Three Year Term Inadequate for Rider DMR.

Three years inadequate for the Rider DMR term because the Commission should not set a time limit based on speculative actions of credit rating agencies, particularly actions three years in the future. The same terms apply to both Rider DMR and the ESP IV. Recent experiences contradict the Staff's belief that three years sufficient time for FirstEnergy Corp. to address its financial situation contradicted by recent experience. While FirstEnergy Corp. achieved significant steps over three years to address its financial situation, credit ratings' improvement takes more time. Rider DMR and the ESP IV need the same terms. Otherwise the term of Rider DMR becomes whenever the Staff believes credit rating agencies may act. [67]

Additionally, distribution grid modernization needs to continue after three years. The three scenarios included in the grid modernization business plan indicate eight years (2026) as the shortest deployment period, while 15 years indicated as the longest deployment period with full deployment in 2033. Both deployments extend beyond the term of ESP IV. Rider DMR needs a significantly long minimum term to make the required investments in distribution grid modernization. Indeed, the Staff proposed Rider DMR as an alternative to the Proposal, which would have been in effect for the eight-year term of ESP IV. For these reasons, Rider DMR should last for the full eight-year term of ESP IV.[68]

[66] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206, Pg. 14 LN 3-9
[67] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206 , Pg. 15 LN 5-16
[68] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206 , Pg. 15 LN 17-23; Pg. 16 LN 1-3

The Companies cannot delay collection of Rider DMR revenues until immediate access needed to capital for grid modernization. Delay in the Companies receipt of funds defeats the purpose of Rider DMR.[69]

4. Rider DMR Rate Design

OEG witness Stephen J. Baron presented a reasonable DMR rate design approach, according to the Companies.[70] Mr. Baron allocates DMR costs to rate schedules at 50 percent on the basis of distribution revenues, and 50 percent on the basis of demand (4 Coincident Peak).[71] After this 50/50 cost allocation, the Companies collect allocated DMR costs based on a kWh charge calculated separately for each rate schedule for each Company. [72] Mr. Baron developed OEG Exhibit 8 filed and admitted in the rehearing record to show the details.

5. Companies' Customers Not Only Constituents Providing Credit Support

FirstEnergy employees, management, shareholders and others "invested" in supporting FirstEnergy Corp. as an investment grade entity through aggressive corporate-wide initiatives, including but not limited to: [73]

> • FE Management and Employees: Completed reductions across the company through changes to medical and other benefits; Staffing reductions; Cash Flow Improvement Plan ("CFIP") to reduce expenses and enhance revenue throughout operations. The plan identified cost-reduction opportunities and operational efficiencies totaling hundreds of millions of dollars in savings over the next several years.

[69] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206 , Pg. 16 LN 8-18
[70] Ms. Mikkelsen, Rebuttal-Surrebuttal, Testimony, Companies' Ex.206 , Pg. 17 LN 1-4
[71] Mr. Baron, Rebuttal Testimony, OEG' Ex. 7, Pg. 3, LN 4-9
[72] Mr. Baron, Rebuttal Testimony, OEG's Ex. 7, Pg. 4, LN 1-5
[73] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex.206 , Pg. 17 LN 6-14

• Shareholders: Reduced annual dividend from $2.20 to $1.44 per share – a reduction equaling over $300 million annually; Issued equity through stock investment and other employee benefits plans; FirstEnergy continues to assess the appropriateness and timing associated with issuing additional equity.

• New Jersey: Recovery of 2011 and 2012 storm costs totaling $736 million; Rate case pending seeking $142 million annually.

• Pennsylvania: 2015 rate case totaling $293 million annually; pending Rate case seeking $439 million annually; Capital recovery filings (LTIIP/DSIC) total $245 million increase over 5 years.

• West Virginia: Harrison asset transfer to Mon Power; 2015 rate case and vegetation management rider combined totaling almost $100 million annually

• These significant initiatives by a variety of constituents, other than Ohio customers, show the Companies' customers not the "only constituents providing credit support." [74]

6. Rider DMR's Impact on the ESP vs. MRO Test.

The Staff concludes that ESP IV, including Rider DMR, more favorable in the aggregate than the expected results of an MRO. Ms. Mikkelsen needs further augmented analysis from the Staff to reach this conclusion.[75]

Result of the ESP versus MRO Test considered on a quantitative basis with the Companies' modifications to the Staff's Rider DMR. Rider DMR revenues have no impact on the ESP versus MRO in the aggregate test because base rate case proceedings, the Companies' existing Rider AMI, or another mechanism similar to Rider DMR, recover potentially equivalent revenues.[76]

State policy encourages smart grid programs and implemented advanced metering infrastructure. State policy further encourages implemented distributed generation across

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[74] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206 , Pg. 17 LN 10-30; Pg. 18: LN 1-18
[75] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206 , Pg. 18: LN 20-25
[76] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206 , Pg. 18: LN 26-28; Pg. 19 LN 1-6

customer classes facilitated by grid modernization. For more than five years, the Companies studied smart grid technologies in a pilot area within CEI's service territory. Given the state policy, the smart grid- actions to-date, coupled with Staff advocacy for grid modernization, likely moves the Companies forward with a grid modernization initiative under an MRO. Cash collected for credit support under Rider DMR in an ESP, or in base rates, Rider AMI or a mechanism similar to DMR under an MRO, could fund grid modernization, or necessary make-ready work, under either an ESP or an MRO. Consequently, Rider DMR with modifications recommended by Ms. Mikkelsen become quantitatively neutral for purposes of the ESP versus MRO test. A condition of the proposed Rider DMR requires FirstEnergy Corp. to keep its corporate headquarters and nexus of operations in Akron, Ohio for the entire term of ESP IV. Rider DMR requirements result in substantial annual economic impacts to the State. The quantitative benefit associated with this economic development condition equals to, or greater than, the recommended maximum annual amount of the associated portion of Rider DMR.[77]

Consequently, compared to an MRO, Rider DMR at least quantitatively neutral because the net of Rider DMR costs, and the quantitative benefit of the commitment to maintain FirstEnergy Corp.'s headquarters and nexus of operation in Akron, greater than or equal to zero. Thus, Rider DMR quantitatively neutral or a quantitative benefit for purposes of the ESP vs. MRO in the aggregate test.[78]

As recognized in the Commission's Order and Staff's testimony, Stipulated ESP IV provides $51.1 million of quantitative benefits from shareholder funding commitments.

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[77] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206 , Pg. 19 LN 6-22; Pg. 20 LN 1
[78] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206 , Pg. 20 LN 1-6

Therefore, ESP IV, including the Companies' recommended adjustments to Rider DMR, more favorable than an MRO by at least $51.1 million on a quantitative basis.[79]

As discussed, Rider DMR quantitatively neutral or a quantitative benefit for purposes of the ESP vs. MRO tests. Further, Rider DMR does not impact other qualitative benefits of Stipulated ESP IV relied upon by the Commission in its Order. Therefore, ESP IV, including the Companies' proposed modifications to Rider DMR, remains more favorable qualitatively than the expected results of an MRO. [80]

Ms. Mikkelsen concludes the Stipulated ESP IV, including the Companies' proposed modifications to Rider DMR, more favorable on both a quantitative and qualitative basis than the expected results of an MRO.[81]

7. Consideration of the Proposal and Rider DMR's in SETT

Ms. Mikkelsen disagrees with witness Duann that all revenues and expenses of the Proposal need inclusion in the Companies' annual SEET Analysis. The Commission's Order in the generic SEET case (Case No. 09-786-EL-UNC) specifically allows exclusion of special items from the SEET calculation. The Proposal justifiably excludes credits or charges as a special item since not related to, or only incidentally related to typical utility operations. The Proposal's credits and charges consistent with other items excluded in prior SEET cases, such as mark-to-market accounting impacts. The Proposal symmetrically designed, whereas the asymmetric SEET has no lower range on the ROE. Inclusion of the Proposal in SEET contradicts that symmetric design of the rider by increasing the Companies' risk of a SEET refund, while not providing downside protection in the event the Proposal a credit. A SEET refund due to the

[79] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206 , Pg. 20 LN 7-11
[80] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206 , Pg. 20 LN 16-20
[81] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206 , Pg. 21 LN 1-3

Proposal defeats the purpose of the financial hedge because of unrealized full value since customers receive the full credit without paying the full charge. Under SEET, the Companies' earned ROE compared to the earned return of comparable companies. Since other companies without hedge mechanisms, the Proposal must be excluded for valid comparison. The existence of the Proposal creates a different financial and business risk than other comparable company faces.[82]

The revenues associated with Rider DMR excluded from the Companies' annual SEET calculation. This exclusion consistent with the intent of Rider DMR, the Commission's Order in the generic SEET case (Case No. 09-786-EL-UNC), the SEET statute, as well as the SEET exclusions already approved by the Commission in the ESP IV Order. Rider DMR inclusion in the SEET calculation increases the Companies' risks of an inappropriate SEET refund. A SEET refund associated with Rider DMR defeats the purpose of that rider. The Companies' credit metrics not improved by refunded Rider DMR dollars. Improved access to capital markets support disappears if the Companies return revenues from Rider DMR to customers. In addition, the SEET calculation by definition concerned only with a utility's ability to generate significantly excessive earnings. It is not a test of utility creditworthiness. A finding of significantly excessive earnings not in and of itself indicative of investment grade credit ratings at a utility. Further, refund of Rider DMR dollars provides no incentive to retain the FirstEnergy Corp. headquarters and nexus of operations in Akron, Ohio contrary to the rider's intent. [83]

The Commission's Order in the generic SEET case specifically allows extraordinary items excluded from the SEET calculation. Rider DMR associated charges justifiably excluded from the SEET calculation extraordinary because the credit support necessary for the Staff to

[82] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206, Pg. 21 LN 3-23; Pg. 22 LN 1-2
[83] Ms. Mikkelsen, Rebuttal_Surrebuttal Testimony, Companies' Ex. 206, Pg. 22 LN 5-20.

achieve the stated goal of developing one of the nation's most intelligent distribution grids, along with the commitment to retain FirstEnergy Corp.'s headquarters and nexus of operations in Akron, Ohio.[84]

Under the SEET calculation as prescribed in the SEET statute, the earned ROE of a utility compares to the earned return of comparable companies. However, companies, without a Rider DMR like mechanism to jump-start capital investment by improving access to capital markets, on more favorable terms and conditions, or committed to retaining a Fortune 200 company's headquarters in the State, not comparable to the Companies. Therefore, exclusion of Rider DMR needed to allow a valid comparison. [85]

Finally, the ESP IV Order allows for SEET exclusions "associated with any additional liability or write-off of regulatory assets" due to implementing the Companies' ESP IV. Under Staff's recommendation, Rider DMR implemented along with a Commission directive for the Companies to invest in grid modernization. This Commission directive likely causes the Companies to take on additional liabilities to fund the investments with necessary debt. Rider DMR associated with the additional liabilities result from the provided credit support. Rider DMR revenues therefore excluded from the SEET calculation. [86]

To the extent the Commission includes Rider DMR revenues in the SEET calculation, it is appropriate to allocate the aggregate revenues received amongst the Companies based on their respective credit needs, consistent with the intent of the rider. Further, to the extent that the Commission determines that Rider DMR revenues included in the SEET calculation, the Commission needs to appropriately adjust the Companies' capital structure by increasing the average equity balances to recognize, among other things, 1) the weak credit metrics of the

[84] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206, Pg. 22 LN 21-23; Pg. 23 LN 1-4.
[85] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206, Pg. 23 LN 5-10.
[86] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206, Pg. 23 LN 10-18.

Companies; 2) the additional debt necessitated by the grid modernization efforts; and 3) increased risk to the Companies. [87]

Dollars collected under the Proposal should not be subject to refund on the basis Dr. Duann's recommendation because that requires the Commission to engage in retroactive ratemaking. The Commission only sets new rates prospective. No reason exists to treat the Proposal differently. Additionally, Dr. Duann's recommendation subjects the same dollars subject to refund potentially twice – once through this provision and also potentially through a potential SEET refund. [88]

IV. Conclusion

Wherefore, Commission approval of the Proposal as presented, including modification to the calculation previously approved for Rider RRS, along with other matters and issues presented herein, for customers to remain competitive in the global market.

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[87] Ms. Mikkelsen, Rebuttal-Surrebuttal Testimony, Companies' Ex. 206 , Pg. 23 LN 19-23; Pg. 1-4
[88] Ms. Mikkelsen, Rebuttal-Surrebuttal testimony, Companies' Ex. 206, Pg. 24 LN 6-18