BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Provide For 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 BRIEF ON REHEARING BY NUCOR STEEL MARION, INC.

Michael K. Lavanga
Counsel of Record
PHV #1014-2016
E-Mail: mkl@smxblaw.com
Garrett A. Stone
PHV #1036-2016
Stone Mattheis Xenopoulos & Brew, PC
1025 Thomas Jefferson Street, N.W.
8th Floor, West Tower
Washington, D.C. 20007
(202) 342-0800 (Main Number)
(202) 342-0807 (Facsimile)

Attorneys for Nucor Steel Marion, Inc.

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Nucor Steel Marion, Inc. ("Nucor") hereby submits its initial post-hearing brief in the rehearing phase of this case, addressing the application by the Ohio Edison Company, the Cleveland Electric Illuminating Company, and the Toledo Edison Company (collectively, "FirstEnergy" or "Companies") for approval of FirstEnergy's fourth electric security plan ("ESP IV").

I. INTRODUCTION

Nucor is a large, industrial, interruptible customer of Ohio Edison. Nucor is a signatory to the ESP IV Stipulation and has actively participated in this case. We continue to support the ESP IV plan, which the Commission approved[1] and which went into effect on June 1, 2016. We continue to be of the view that the ESP IV plan will provide significant benefits to customers over the eight-year term of the ESP.

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[1] *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan*, Case No. 14-1297-EL-SSO, Opinion and Order (March 31, 2016) ("March 31 Order").

The Commission is well aware of the developments since the issuance of the March 31 Order related to the proposed retail rate stability rider ("Rider RRS"), so we will not rehash them here. Suffice it to say that there are two proposals to replace Rider RRS as approved in the March 31 Order that are the focus of the rehearing phase of this case – FirstEnergy's modified RRS proposal (referred to herein as "Modified RRS") as presented in the rehearing testimony of Eileen Mikkelsen,[2] and the proposed Distribution Modernization Rider ("Rider DMR") presented in the rehearing testimony of Staff witnesses Tamara Turkenton, Hisham Choueiki, and Joseph Buckley.[3]

As a signatory to the original Stipulation, Nucor supported FirstEnergy's original proposed Rider RRS. Consistent with that support, we also support FirstEnergy's proposed Modified RRS. While Modified RRS does not provide some of the benefits as the original Rider RRS, Modified RRS will continue to provide an important market-price hedge to customers just as the original proposal did. The rehearing testimony of Ms. Mikkelsen and the Ohio Energy Group's ("OEG") witness Stephen Baron[4] demonstrate that Modified RRS would be effective in mitigating market-price volatility. Modified RRS would be a reasonable hedging mechanism as part of the comprehensive ESP IV plan.

If the Commission adopts Staff's Rider DMR proposal in some form (either with or without FirstEnergy's proposed modifications), Nucor supports the recommendations on the Rider DMR allocation and rate design as presented in Mr. Baron's Rebuttal Testimony.[5] This allocation/rate

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[2] Rehearing Testimony of Eileen M. Mikkelsen, Company Ex. 197 ("Mikkelsen Rehearing Testimony").

[3] Rehearing Testimony of Tamara S. Turkenton, Staff Ex. 14; Rehearing Testimony of Hisham M. Choueiki, PH.D., P.E., Staff Ex. 15 ("Chouieki Rehearing Testimony"); Rehearing Testimony of Joseph P. Buckley, Staff Ex. 13 ("Buckley Rehearing Testimony").

[4] Rehearing Testimony of Stephen J. Baron, OEG Ex. 4 ("Baron Rehearing Testimony").

[5] Rebuttal Testimony of Stephen J. Baron, OEG Ex. 7 ("Baron Rebuttal Testimony").

design proposal is fair and reasonable in light of the unique nature of Rider DMR and the purposes the rider is intended to serve.

Whatever path the Commission chooses on Rider RRS, it is important that a reasonable resolution be adopted that FirstEnergy can and will implement to assure the benefits of ESP IV. FirstEnergy filed its ESP IV proposal over two years ago, and since that time customers have had to deal with the uncertainty of what would come after ESP III. Particularly for large industrial customers, such uncertainty makes it difficult to plan operations and capital projects, and to develop and stick to budgets in future years. In other words, lingering uncertainty about electric costs is a drag on robust economic activity in the industrial sector. As noted above, ESP IV is now in place and is producing benefits for customers. We urge the Commission to take the time it needs to carefully evaluate the remaining issues in this case, but that when the Commission rules, it ensures the continuation of ESP IV and provides the finality and certainty on electric costs that FirstEnergy's customers need.

II. ARGUMENT

A. Nucor Supports Modified Rider RRS

As proposed by FirstEnergy, the Modified RRS will operate in much the same way as the Rider RRS approved in the March 31 Order. The only changes to the Rider RRS calculation are: (i) actual costs of the plants will be replaced with the projected costs which are already in evidence, and which have been relied upon by the Commission; (ii) actual generation output from the plants will be replaced with the projected generation output which is already in evidence and which was relied upon by the Commission in approving Rider RRS, and (iii) actual capacity cleared in the PJM capacity market will be replaced with the capacity projected to clear, which is already in the record and has been relied upon by the Commission.[6]

In approving ESP IV, the Commission determined that the plan would "protect consumers against rate volatility and price fluctuations by promoting rate stability for all ratepayers in this state."[7] The Commission further explained that Rider RRS would function as a "form of rate insurance."[8] When energy market prices are low, customers would pay a charge under Rider RRS, but "if energy market prices rise from the current low levels, customers will begin to receive a credit under Rider RRS, which will mitigate the increases customers see on their bills."[9] The evidence on the record in the rehearing phase of this case demonstrates that Modified RRS will operate in much the same manner and will produce the same market-price hedging/risk mitigation benefit to customers.[10] In fact, Modified RRS improves upon the original Rider RRS because it holds the cost-side of the hedging mechanism constant, thereby reducing the moving parts associated with the hedge, and preventing customers from being exposed to operational risks, such as extended outages, associated with the plants.[11]

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[6] Mikkelsen Rehearing Testimony at 5.

[7] March 31 Order at 79.

[8] *Id*. at 80.

[9] *Id*.

[10] Mikkelsen Rehearing Testimony at 10 ("The modified Rider RRS still operates as a form of rate insurance for the Companies' customers. If power prices stay at the current low levels, customers will pay a charge under Rider RRS. However, if power prices rise, customers will begin to see credits to offset the increasing power prices."); Baron Rehearing Testimony at 2-3 ("Diversification, by not putting all of your eggs in either the cost-of-service basket or the market basket, is a reasonable risk mitigation policy. Also, diversifying FirstEnergy's generating pricing portfolio will provide rate stability and predictability for individual customers.").

[11] Mikkelsen Rehearing Testimony at 5-6.

For these reasons, the Modified RRS proposal is a reasonable hedging mechanism that will help mitigate the impacts of energy market price volatility on FirstEnergy's customers and will permit the finalization of the current ESP IV plan for the next eight years to the benefit of all.

B. If the Commission Approves Rider DMR, Nucor Supports OEG Witness Baron's Proposed Cost Allocation Mechanism and Rate Design for the Rider

As an alternative to the Modified RRS, Staff has proposed Rider DMR. As proposed by Staff, Rider DMR would recover $131 million a year from FirstEnergy's customers.[12] The rider is intended to provide credit support to FirstEnergy and to help jumpstart FirstEnergy's distribution and grid modernization initiatives.[13] The rider also has an economic development component, since it is conditioned upon FirstEnergy keeping its corporate headquarters and nexus of operations in Akron for the term of ESP IV.[14] The rider would be in place for three years, and FirstEnergy would be able to request a two-year extension of the rider.[15]

While FirstEnergy believes that its Modified RRS provides the greatest benefit to customers, FirstEnergy maintains that a properly designed Rider DMR would benefit the public.[16] FirstEnergy recommends changes that would increase the amount of dollars recovered through Rider DMR, and also maintains that Rider DMR, if approved, should be put in place for the full eight-year term of ESP IV.[17] Neither Staff nor FirstEnergy propose a cost allocation/recovery mechanism for Rider DMR.

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[12] Buckley Rehearing Testimony at 2.

[13] *Id.* at 2; Choueiki Rehearing Testimony at 14-16.

[14] Buckley Rehearing Testimony at 7.

[15] *Id*.

[16] Rehearing Rebuttal and Surrebuttal Testimony of Eileen M. Mikkelsen, Company Ex. 206 at 5.

[17] *Id*. at 9-16.

If the Commission approves Rider DMR instead of Rider RRS, a good case can be made that the cost of the rider should be allocated among customer classes based on distribution revenue. A distribution revenue allocation obviously is consistent with the goal of the rider to support the modernization of the distribution system. A distribution allocation is also consistent with the distribution-based allocation methodologies approved by the Commission and used by AEP and Dayton Power & Light for their economic development riders.[18] Since a distribution allocation is consistent with the main purposes of proposed Rider DMR, the Commission would be on solid ground adopting a distribution allocation for the rider. We would not oppose this approach.

However, Nucor has reviewed the allocation approach proposed by OEG's witness Mr. Baron and believes that it also represents a reasonable compromise approach on such an allocation. Mr. Baron recommends that Rider DMR costs be allocated to rate schedules 50% based on distribution revenues, and 50% based on demand (*i.e.*, class contribution to the four coincident peaks).[19] Mr. Baron's recommended allocation recognizes the primary grid enhancement and economic development purposes of Rider DMR in recommending that half the cost be allocated based on distribution revenue, but also recognizes the unique nature of the rider, and its additional purpose of providing credit support for FirstEnergy, by allocating half of the cost based on demand. Splitting the allocation between distribution revenue and demand as

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[18] *See In the Matter of the Application of Ohio Power Company to Adjust Its Economic Development Rider Rate*, Case No. 16-260-EL-RDR; *In the Matter of the Application of The Dayton Power and Light Company to Update its Economic Development Rider*, Case No. 16-571-EL-RDR.

[19] Baron Rebuttal Testimony at 3.

Mr. Baron recommends is a balanced approach that would more evenly spread the impact of the rider among the customer classes. As a result, Nucor can support this approach.

Mr. Baron also recommends that that Rider DMR be recovered from all customers through an energy charge.[20] In a manner similar to how the distribution/demand allocation would balance the impact of the rider among customer classes, recovering the cost of the rider through an energy charge would tend to balance the impact of the rider among customers with various load factors within a class.[21] Nucor supports this proposed rate design for Rider DMR, regardless of whether a straight distribution allocation or Mr. Baron's recommended distribution/demand hybrid allocation is adopted.

Mr. Baron is the only witness to sponsor testimony on the proper allocation/recovery mechanism for Rider DMR. The evidence in the record demonstrates that his proposal is simple, equitable and fair, and is a reasonable approach in light of the unique nature and purpose of Rider DMR. Accordingly, we support Mr. Baron's recommended approach.

[20] *Id*. at 4.

[21] Rehearing Tr. Vol. VI at 1319.

III. CONCLUSION

Nucor respectfully requests that the Commission adopt the recommendations discussed in this initial rehearing brief.

Respectfully submitted,

*_/s/ Michael K. Lavanga_*

Michael K. Lavanga
Counsel of Record
PHV #1014-2016
Garrett A. Stone
PHV #1036-2016
E-Mail: mkl@smxblaw.com
Stone Mattheis Xenopoulos & Brew, PC
1025 Thomas Jefferson Street, N.W.
8th Floor, West Tower
Washington, D.C. 20007
(202) 342-0800 (Main Number)
(202) 342-0807 (Facsimile)

Attorneys for Nucor Steel Marion, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served upon the following parties of record or as a courtesy, via electronic mail on August 15, 2016.

/s/ Michael K. Lavanga
Michael K. Lavanga

cdunn@firstenergycorp.com
jlang@calfee.com
talexander@calfee.com
dakutik@jonesday.com
stnourse@aep.com
william.wright@ohioattorneygeneral.com
mandy.willey@ohioattorneygeneral.gov
gregory.price@ohioattorneygeneral.gov
William.wright@puc.state.oh.us
mjsatterwhite@aep.com
yalami@aep.com
whitt@whitt-sturtevant.com
campbell@whitt-sturtevant.com
glover@whitt-sturtevant.com
schmidt@sppgrp.com
joliker@igsenergy.com
sam@mwncmh.com
fdarr@mwncmh.com
mpritchard@mwncmh.com
myurick@taftlaw.com
dparram@taftlaw.com
Larry.sauer@occ.ohio.gov
Maureen.grady@occ.ohio.gov
William.michael@occ.ohio.gov
Kevin.moore@occ.ohio.gov
Ajay.kumar@occ.ohio.gov
mkurtz@BKLlawfirm.com
kboehm@BKLlawfirm.com
jkylercohn@BKLlawfirm.com
cmooney@ohiopartners.org
ricks@ohanet.org
mwarnock@bricker.com
bojko@carpenterlipps.com
ghiloni@carpenterlipps.com
BarthRoyer@aol.com
athompson@taftlaw.com
wttpmlc@aol.com

Christopher.Miller@icemiller.com
Gregory.Dunn@icemiller.com
Jeremy.Grayem@icemiller.com
lhawrot@spilmanlaw.com
dwilliamson@spilmanlaw.com
blanghenry@city.cleveland.oh.us
hmadorsky@city.cleveland.oh.us
kryan@city.cleveland.oh.us
meissnerjoseph@yahoo.com
mdortch@kravitzllc.com
rparsons@kravitzllc.com
tdougherty@theOEC.org
trhayslaw@gmail.com
LeslieKovacik@toledo.oh.gov
marilyn@wflawfirm.com
todonnell@dickinsonwright.com
gkrassen@bricker.com
dstinson@bricker.com
dborchers@bricker.com
mfleisher@elpc.org
mitch.dutton@fpl.com
jeffrey.mayes@monitoringanalytics.com
mjsettineri@vorys.com
glpetrucci@vorys.com
Sechler@carpenterlipps.com
gpoulos@enernoc.com
callwein@keglerbrown.com
rsahli@columbus.rr.com
tony.mendoza@sierraclub.org
kristin.henry@sierraclub.org
msoules@earthjustice.org
sfisk@earthjustice.org
charris@spilmanlaw.com
dwolff@crowell.com
rlehfeldt@crowell.com
DFolk@akronohio.gov