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

REPLY BRIEF ON REHEARING BY NUCOR STEEL MARION, INC.

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TABLE OF CONTENTS

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Nucor Steel Marion, Inc. ("Nucor") hereby submits its reply 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. Modified Rider RRS and Rider DMR

As discussed in our initial rehearing brief, Nucor believes it is important to finalize ESP IV and we support FirstEnergy's Modified RRS proposal as part of the final ESP IV plan. The evidence on the record in the rehearing phase of this case demonstrates that Modified RRS will provide the same market-price hedging and risk mitigation benefit that the original Rider RRS would provide as part of the overall ESP IV plan and would help to bring closure to this proceeding.

If, however, the Commission would prefer an alternative to the Modified RRS, Nucor also does not oppose approval of Rider DMR as modified by FirstEnergy as part of a final ESP IV. As proposed by Staff, Rider DMR would recover $131 million a year from FirstEnergy's customers.[1] The rider is intended to provide credit support to FirstEnergy and to help jumpstart FirstEnergy's distribution and grid modernization initiatives.[2] 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.[3] The rider would be in place for three years, and FirstEnergy would be able to request a two-year extension of the rider.[4]

FirstEnergy, while maintaining that Modified RRS is a superior option, explains that a properly designed Rider DMR would provide benefits and could be approved.[5] FirstEnergy proposes the following modifications to DMR: (i) a 15% target for Cash Flow from Operations pre-Working Capital to Debt; (ii) use of a three year average from 2012-14 rather than a five year average; (iii) a pre-tax gross up; and (iv) an allocation factor for the Companies of 40%.[6] FirstEnergy also recommends that Rider DMR properly reflect the economic development and job retention benefits associated with retaining the FirstEnergy Corporation corporate headquarters and nexus of operations in Akron, and proposes that the rider should stay in effect for the full eight-year term of ESP IV.[7]

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[1] Rehearing Testimony of Joseph P. Buckley, Staff Ex. 13 ("Buckley Rehearing Testimony"), at 2.

[2] *Id.*

[3] *Id.* at 7.

[4] *Id*.

[5] Post-Hearing Reply Brief of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company ("FirstEnergy Post-Rehearing Brief") at 24, 26.

[6] Rehearing Rebuttal and Surrebuttal Testimony of Eileen M. Mikkelsen, Company Ex. 206, at 9-13.

[7] *Id*. at 13-15.

As explained by FirstEnergy, a properly designed Rider DMR would help the Companies undertake the significant investments needed to modernize the distribution system.[8] The credit support provided through the rider would allow FirstEnergy to access the capital markets on more favorable terms, allowing the Companies to obtain the money needed to invest in grid modernization. Overall, the rider would help lower the borrowing costs associated with the grid modernization endeavor, and would also help avoid the negative consequences to both FirstEnergy and its customers of FirstEnergy slipping below an investment grade credit rating.[9] Finally, Rider DMR would provide significant economic development and job retention benefits by maintaining FirstEnergy Corporation's headquarters and nexus of operations in Akron for the full term of ESP IV.

The evidence on the record in the rehearing phase of the case demonstrates that Rider DMR as modified by FirstEnergy would provide benefits and would be reasonable to include as an element of the comprehensive ESP IV plan if Modified Rider RRS is not adopted. If the Commission does not approve the Modified RRS proposal, therefore, Nucor does not oppose approval of Rider DMR as part of a final ESP IV plan.

II. Cost Allocation and Rate Design Recommendations for Rider DMR

There were several proposals discussed in the initial rehearing briefs related to how the costs of Rider DMR should be allocated among the customer classes if the Commissions approves Rider DMR. For example, Industrial Energy Users-Ohio ("IEU-Ohio") recommend that if the Commission approves Rider DMR, it should adopt an allocation based on distribution revenue

[8] FirstEnergy Post-Rehearing Brief at 26.

[9] *Id.* at 30-31.

since that allocation best reflects cost causation and is consistent with Ohio state electric services policy.[10] Nucor agrees with IEU-Ohio that a distribution allocation would be appropriate and, as noted in our initial brief, we would not oppose this approach.

Nucor also continues to support the allocation approach proposed by Ohio Energy Group ("OEG") witness Stephen Baron. Mr. Baron recommends allocating half of the cost based on demand, and half of the cost based on distribution revenue. As discussed in our initial brief, we believe this is a reasonable compromise allocation given the unique nature of the rider as providing credit support, distribution system enhancement, and economic development benefits. Several parties expressed the view in their initial briefs that this allocation approach would be reasonable.[11]

The Ohio Consumers Council and the Northwest Ohio Aggregation Communities ("OCC/NOAC") and Staff support allocating half of the Rider DMR costs based on demand and half based on energy.[12] We believe that an energy allocation would not be the best choice because, as Mr. Baron testified, there is no nexus between the costs that would be recovered under Rider DMR and the volume of energy used by a given customer, and therefore the energy allocation portion would be entirely inconsistent with cost causation principles.[13] An energy allocation would also shift a large portion of the responsibility for Rider DMR to energy intensive

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[10] Initial Rehearing Brief of Industrial Energy Users-Ohio ("IEU-Ohio Initial Rehearing Brief") at 2, 5-7.

[11] Initial Brief on Rehearing by Nucor Steel Marion, Inc. at 6-7; IEU-Ohio Initial Rehearing Brief at 7-8; Rehearing Brief of the Ohio Energy Group ("OEG Rehearing Brief") at 5-7; Initial Rehearing Brief by Material Sciences Corporation at 26.

[12] OCC/NOAC Initial Rehearing Brief at 45; Post-Hearing Brief Submitted on Behalf of the Staff of the Public Utilities Commission of Ohio at 13-14.

[13] Rebuttal Testimony of Stephen J. Baron, OEG Ex. 7, at 3.

commercial and industrial customers, reducing these customers' competitiveness and undermining Ohio's economic development goals.[14]

Despite these concerns with an energy allocation, if the Commission wishes to further lessen the impact of Rider DMR on residential customers, the Commission may choose to adopt an alternative discussed in OEG's brief that limits this allocation to the residential class. As an alternative to allocating Rider DMR costs among all customer classes based on demand and distribution revenue, OEG suggests that Rider DMR costs could first be allocated only to the residential class based on 50% demand and 50% energy. Then, the residual Rider DMR costs would be allocated to the remaining rate schedules based on the 50% demand 50% distribution revenue approach recommended by Mr. Baron.[15] While the energy allocation does not reflect cost causation, Nucor would not oppose this approach as another reasonable compromise alternative.

Finally, as discussed in our initial brief, Nucor supports Mr. Baron's recommendation to recover Rider DMR costs through an energy charge. No party opposed this rate design in their initial briefs. Accordingly, the Commission should adopt this rate design if it approves Rider DMR.

[14] IEU-Ohio Initial Rehearing Brief at 8.

[15] OEG Rehearing Brief at 8.

III. CONCLUSION

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

Respectfully submitted,

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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 29, 2016.

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