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

APPLICATION FOR REHEARING OF NUCOR STEEL MARION, INC.

Pursuant to R.C. § 4903.10 and Rule 4901-1-35 O.A.C., Nucor Steel Marion, Inc., ("Nucor") hereby requests limited rehearing of the Public Utilities Commission of Ohio's ("Commission") October 12, 2016 Fifth Entry on Rehearing ("October 12 Rehearing Entry") in the above-captioned proceeding. The October 12 Rehearing Entry did not address certain cost allocation and rate design recommendations related to FirstEnergy's distribution modernization rider ("Rider DMR"). Consistent with R.C. § 4903.10 and as discussed in more detail in the attached Memorandum in Support, the Commission should grant rehearing of the October 12 Rehearing Entry and adopt the alternative Rider DMR cost allocation and rate design recommendations proposed by the Ohio Energy Group ("OEG").

Respectfully submitted,

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MEMORANDUM IN SUPPORT

I. INTRODUCTION

In the October 12 Rehearing Entry, the Commission approved Staff's Rider DMR proposal with certain modifications. The Commission also approved a cost allocation approach for the rider whereby costs would be allocated between FirstEnergy operating companies, and among customer classes, half based on energy and half based on demand.[1] Similarly, the Commission adopted a rate design that would recover Rider DMR costs from customers half though an energy charge, and half though a demand charge.[2] The Commission adopted this cost allocation and rate design for Rider DMR because it wanted to reduce the impact of the rider on the residential class.[3]

In rendering its decision on this issue, the Commission did not address an alternate cost allocation/rate design approach proposed by OEG that would have resulted in a Rider DMR more

[1] October 12 Rehearing Entry at P 211.

[2] *Id*.

[3] *Id*.

reflective of cost causation, while at the same time significantly mitigating the impact of the rider on the residential class. Specifically, Rider DMR costs should be allocated to the residential class based half on energy and half on demand. Then, after that initial allocation, the residual Rider DMR costs should be allocated among the remaining customer classes half based on demand and half based on distribution revenue. Finally, costs should be recovered from customers under Rider DMR through an energy charge.

As discussed below, the Commission should grant rehearing on this issue and adopt this compromise cost allocation/rate design approach.

II. ARGUMENT

Staff introduced and supported the Rider DMR concept in its testimony in the rehearing phase of this case. Staff's testimony did not address the cost allocation or rate design of the proposed rider, and Staff did not advocate for a particular cost allocation/rate design in its briefs. Even though there was little evidence on the record supporting the half-energy half-demand cost allocation and rate design, the Commission adopted this approach in the October 12 Rehearing Entry, explaining that this approach would mitigate the impact of the rider on residential customers.

OEG's witness Mr. Baron was the only witness to submit testimony on the appropriate cost allocation and rate design for Rider DMR. Mr. Baron proposed that Rider DMR costs be allocated among customer classes half based on demand (i.e., the class contribution to the four coincident peaks), and half based on distribution revenue.[4] Mr. Baron testified that this approach was reasonable given the unique nature and purpose of Rider DMR, and also explained that an

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

energy allocation is not supported by cost causation principles, since there is no nexus between the costs that would be recovered under Rider DMR and the volume of energy used by a given customer.[5] After costs are allocated based on the demand/distribution split, Mr. Baron further recommended that Rider DMR cost be recovered from customers through an energy charge.[6] An energy charge would more evenly spread Rider DMR cost responsibility among customers with varying load factors within their respective classes.[7]

In its initial rehearing brief, OEG supported Mr. Baron's recommended cost allocation and rate design, but also proposed an alternative allocation mechanism designed to reduce the impact of Rider DMR on the residential class.[8] Specifically, OEG proposed that, after Rider DMR costs are allocated among the three operating companies, the costs would be allocated to the residential class half based on energy and half based on demand. Then, the residual Rider DMR costs would be allocated among the remaining customer classes half based on distribution revenue and half based on demand.

In Nucor's initial and reply rehearing briefs, we expressed support for both Mr. Baron's initial Rider DMR cost allocation and rate design recommendations, as well as OEG's alternative allocation mechanism. Significantly, as the Commission recognized, the Ohio Consumers' Counsel expressed its support for OEG's alternative allocation cost allocation/rate design recommendation as a reasonable compromise approach.[9]

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[5] *Id*.

[6] *Id*. at 4.

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

[8] Rehearing Brief of the Ohio Energy Group at 8.

[9] October 12 Rehearing Entry at P 179.

In the October 12 Rehearing Entry, the Commission took note of OEG's alternative cost allocation proposal,[10] but in rendering its decision on the cost allocation and rate design of Rider DMR, the Commission did not address why OEG's alternative proposal was not appropriate. The only reasoning the Commission gave for approving the half-energy half-demand cost allocation and rate design for Rider DMR was that it was concerned that Mr. Baron's initial recommendation would excessively impact residential customers.[11]

In fact, OEG's alternative mechanism would address the Commission's concern about the impact of Rider DMR on the residential class by allocating costs to that class in the same way as Rider DMR costs would be allocated under the approach approved by the Commission in the October 12 Rehearing Entry. At the same time, the alternative mechanism would allocate the residual Rider DMR costs among the remaining classes based on demand and distribution revenue – an approach more reflective of cost causation and supported by the evidence on the record in this case. As such, OEG's alternative mechanism would be a reasonable middle-ground compromise between Mr. Baron's initial demand/distribution revenue allocation recommendation for all customer classes, and the energy/demand allocation for all classes adopted by the Commission in the October 12 Rehearing Entry.

Further, Mr. Baron's rate design recommendation – that Rider DMR costs be recovered through an energy charge – should be adopted instead of the half-energy half-demand rate design adopted by the Commission. The evidence in this case clearly demonstrates that an energy charge would balance the impact of Rider DMR among customers with varying load

[10] *Id*.

[11] *Id*. at P 211.

factors within a class. A single energy charge also would be a simpler rate design for customers to understand.

III. CONCLUSION

In summary, for the reasons discussed above, Nucor respectfully requests that the Commission grant rehearing of the October 12 Rehearing Entry on the limited issue of the cost allocation and rate design for Rider DMR. The Commission should adopt the following cost allocation and rate design for the rider:

- Perform an initial allocation for the residential class based half on energy and half on demand;
- Allocate the residual Rider DMR costs among the remaining customer classes based half on demand and half on distribution revenue; and
- Design the Rider DMR rate as a single energy charge.

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 November 14, 2016.

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