BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Determination of the Existence of Significantly Excessive Earnings for 2017 Under the Electric Security Plans of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company	**Case No. 18-857-EL-UNC**

APPLICATION

By its Opinion and Order dated, March 31, 2016, in Case No. 14-1297-EL-SSO, the Commission approved a Stipulation regarding the fourth Electric Security Plan ("ESP IV") under Ohio Revised Code 4928.143 for Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, "Companies"). ESP IV became effective on June 1, 2016 and continues through May 31, 2024.

Each of the Companies is an electric distribution utility within the meaning of Ohio Revised Code 4928.01(A)(6). Under Ohio Revised Code 4928.143(F), the Commission is to consider, following the end of each annual period, whether significantly excessive earnings have resulted for an electric distribution utility under its ESP "as measured by whether the earned return on common equity of the electric distribution utility is significantly in excess of the return on common equity that was earned during the same period by publicly traded companies, including utilities, that face comparable business and financial risk, with such adjustments for capital structure as may be appropriate." Pursuant to the provisions of Ohio Revised Code 4928.143(F) and Ohio Administrative Code 4901:1-35-3(C)(10), the Companies by this Application request the Commission's determination that significantly excessive earnings did not result for the Companies under their ESPs with respect to the annual period ending December 31, 2017.

In support of the requested determination, the Application is accompanied by the testimony and analysis of Jason S. Petrik and Joanne M. Savage. (Attachments 1 and 2). In addition, and as contemplated under the cited Ohio Administrative Code section, provided for each of the Companies as part of the Application are the FERC Form 1 for 2017 and the Securities and Exchange Commission Form 10-K filing for 2017.[1]

Also provided, as contemplated under the cited Ohio Administrative Code section, is a presentation of the Companies' capital budget requirements for future committed investments in Ohio for each annual period remaining in the ESP.[2] The statute provides that in connection with the determination of whether significantly excessive earnings exist "[c]onsideration also shall be given to the capital requirements of future committed investments in this state." Additionally, the accompanying testimony also addresses the group of various factors (expressly set out in the Opinion and Order of June 30, 2010, Case No. 09-786-EL-UNC, p. 29) which the Commission views as reflecting "significant variations" among Ohio's electric utilities. In the context of the review applicable to 2017, however, the Companies submit that analysis of financial performance metrics provided for the Companies and the comparable publicly traded companies provide a substantial and adequate basis to support the conclusion that significantly excessive earnings did not result. Accordingly, the Commission need not engage in any detailed analysis

[1] As these documents are readily and publicly available online at the websites of the agencies of the federal government with which they have been filed, hard copies of these voluminous documents have not been physically submitted to the Docketing Division. The Companies' FERC Form 1 for 2017 can be located in the FERC Online eLibrary. See http://elibrary.ferc.gov/idmws/search/fercadvsearch.asp. The Companies' Securities and Exchange Commission Form 10-K filing for 2017 can be located on the SEC website. See http://www.sec.gov/edgar/searchedgar/companysearch.html.

[2] The Companies capital requirements can be found on pages 14-16 of the Securities and Exchange Commission Form 10-K filing for 2017. The website where the Securities and Exchange Commission Form 10-K filing for 2017can be located is listed in the footnote above.

of future capital requirements nor the other factors in order to reach the determination requested herein.

WHEREFORE, based upon the foregoing, the Companies request that the Commission determine and set out as its findings and order in this case that for the annual period ending December 31, 2017, the earnings of the Companies under ESP IV were not significantly excessive.

Respectfully submitted,

/s/ *Robert M. Endris*

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[Attachment 1 to Application]

BEFORE THE

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In the Matter of the Determination of the Existence of Significantly Excessive Earnings for 2017 Under the Electric Security Plan of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company	**Case No. 18-857-EL-UNC**

DIRECT TESTIMONY OF

JASON S. PETRIK

ON BEHALF OF

OHIO EDISON COMPANY
THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
THE TOLEDO EDISON COMPANY

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is Jason S. Petrik. My business address is FirstEnergy Corp. ("FirstEnergy"), 76 South Main Street, Akron, Ohio 44308. I am Assistant Controller - Corporate for FirstEnergy and a number of its subsidiary companies, including Ohio Edison Company ("OE"), The Cleveland Electric Illuminating Company ("CEI"), and The Toledo Edison Company ("TE") (collectively, "Companies").

Q. WHAT ARE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS?

A. I earned a Bachelor of Science in Business Administration with a specialization in Accounting from Bowling Green State University in 1996. I joined Ernst & Young LLP in 1996 serving in various client service positions until 2004. Subsequent to Ernst & Young LLP, I held several positions of increasing responsibility within the controller functions at Agilysys, Inc. and Cliffs Natural Resources, most recently as a Business Unit Controller, until I was elected into my current role as Assistant Controller – Corporate at FirstEnergy in June 2014. I am a licensed Certified Public Accountant in Ohio.

Q. PLEASE DESCRIBE YOUR DUTIES AS ASSISTANT CONTROLLER - CORPORATE.

A. I am responsible for: ensuring the financial and accounting records of FirstEnergy and its subsidiaries are maintained in conformity with generally accepted accounting principles ("GAAP") and regulatory requirements; disbursements to employees, tax authorities and vendors; external financial reporting; and accounting research in connection with proposed accounting standards and proposed business transactions.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to present information for purposes of the Commission's annual test with respect to whether the Companies' Electric Security Plan ("ESP") has resulted in significantly excessive earnings per Ohio Revised Code 4928.143(F) ("Significantly Excessive Earnings Test" or "SEET"). I am responsible for identifying and quantifying transactions that are included in the accounts for each of the Companies under GAAP but are excluded from their Ohio regulatory books of account for purposes of the significantly excessive earnings evaluation. In particular, I provide information regarding the Companies' earnings and equity which supports the conclusion that the return on equity that was earned in 2017 by each of the Companies was not significantly in excess of the return that was earned by publicly traded companies as described in the statute. I also sponsor materials that are required to accompany the Companies' filing under Ohio Administrative Code 4901:1-35-03(C)(10)(a).

Q. IS YOUR TESTIMONY IN THIS PROCEEDING CONSISTENT WITH THE COMMISSION'S JUNE 30, 2010 FINDING AND ORDER AND AUGUST 25, 2010 ENTRY ON REHEARING IN CASE NO. 09-786-EL-UNC?

A. Yes, my analyses were prepared in a manner that reflects the decisions made by the Commission in the Finding and Order and Entry on Rehearing where applicable to the

Companies. My conclusions are based on the results of these analyses and the analysis sponsored by Companies' Witness Joanne Savage.

Q. WHAT MATERIALS HAVE YOU INCLUDED WITH YOUR TESTIMONY?

A. I have included the following three attachments to my testimony:

Schedule JSP-1	Return on Equity Calculation
Schedule JSP-2	Net Income Calculation
Schedule JSP-3	Common Equity Calculation

Q. PLEASE EXPLAIN HOW YOU HAVE MADE AVAILABLE THE COMPANIES' FERC FORM 1 AND SEC FORM 10-K IN COMPLIANCE WITH OHIO ADMINISTRATIVE CODE 4901:1-35-03(C)(10)(a).

A. As discussed in the Application, the Companies' FERC Form 1 and FirstEnergy's SEC Form 10-K are publicly available documents that can be located on the Internet. Due to the voluminous nature and public availability of these documents, the Commission Staff has advised the Companies that it is acceptable to fulfill this requirement by citing where parties may locate these documents on the Internet. The URLs where these documents can be found on the Internet are provided in the Application.

Q. DO YOU SPONSOR THE COMPANIES' ANALYSIS OF THE RETURN ON EQUITY EARNED BY THE COMPARABLE GROUP OF PUBLICLY TRADED COMPANIES DURING 2017 OR THE THRESHOLD ABOVE SUCH

RETURN AT WHICH THE COMPANIES' EARNINGS WOULD BE CONSIDERED SIGNIFICANTLY EXCESSIVE?

A. No. That analysis is sponsored by Companies' Witness Joanne Savage.

Q. PLEASE EXPLAIN THE PROCESS FOR DETERMINING THE EARNED RETURN ON COMMON EQUITY FOR THE COMPANIES IN 2017.

A. The earned return on common equity was calculated by dividing 2017 adjusted net income by the adjusted average common equity during 2017. For purposes of the determination of significantly excessive earnings, net income and common equity were adjusted to eliminate the revenue, expenses, or earnings of any affiliate company as required in Ohio Revised Code 4928.143, to reflect items contemplated by the Companies' fourth Electric Security Plan ("ESP IV") in Case No. 14-1297-EL-SSO, as approved by the Commission, and for other non-recurring, special or extraordinary items as contemplated in Case No. 09-786-EL-UNC. These adjustments are described below. Average common equity was calculated based upon the adjusted common equity balances over the thirteen-month period from December 31, 2016 through December 31, 2017.

Q. HAVE YOU ELIMINATED THE IMPACT OF REVENUE, EXPENSES, OR EARNINGS OF AFFILIATES FROM THE SEET CALCULATION?

A. Yes. As required by Ohio Revised Code 4928.143(F), the Companies have eliminated revenues, expenses and earnings from affiliates. These adjustments include the removal of subsidiary earnings, associated companies revenues and expenses, and interest and dividend income from associated companies. For example, Pennsylvania Power Company is a distribution subsidiary of Ohio Edison providing service in the Commonwealth of Pennsylvania -- its earnings, which are non-Ohio jurisdictional and unrelated to the provisions of ESP IV, should not be included for SEET purposes.

Q. WHAT ARE THE SPECIFIC ADJUSTMENTS CONTEMPLATED BY THE COMPANIES' ESP IV AS APPROVED BY THE COMMISSION?

A. The specific adjustments contemplated by the Companies' ESP IV as approved by the Commission are to exclude the impact: (i) of a reduction in equity resulting from any write-off of goodwill or arising from a Commission Order, (ii) associated with any additional liability or write-off of regulatory assets due to implementing the Companies' ESP IV and (iii) Distribution Modernization Rider (Rider DMR) revenues.

Q. DID YOU MAKE AN ADJUSTMENT FOR A REDUCTION IN EQUITY RESULTING FROM THE WRITE-OFF OF GOODWILL OR ARISING FROM A COMMISSION ORDER?

A. No. There were no impairments of goodwill or reductions in equity arising from a Commission Order recognized by the Companies during 2017, so no adjustment was needed.

Q. DID YOU MAKE AN ADJUSTMENT TO EXCLUDE THE IMPACT ASSOCIATED WITH ANY ADDITIONAL LIABILITY OR WRITE-OFF OF REGULATORY ASSETS DUE TO THE IMPLEMENTATION OF ESP IV?

A. No. There were no adjustments to exclude the impact associated with any additional liability or write-off of regulatory assets by the Companies in 2017 resulting from the implementation of ESP IV.

Q. DID YOU MAKE AN ADJUSTMENT TO EXCLUDE RIDER DMR REVENUES?

A. Yes. Rider DMR revenues were excluded.

Q. WHAT OTHER ADJUSTMENTS HAVE YOU MADE TO THE EARNINGS AND COMMON EQUITY BALANCES OF THE COMPANIES?

A. Similar to the Companies' 2009 – 2016 SEET filings, I have made adjustments for other special, extraordinary, or nonrecurring items. These adjustments include removing or normalizing the impact of revenues and expenses that do not contribute to the determination of whether the Companies' ESP IV resulted in significantly excessive earnings in 2017, such as expenses associated with the Companies' pension and post-retirement benefits plan (e.g. mark to market).

Q. WHY SHOULD THESE VARIOUS ITEMS BE EXCLUDED FROM THE MEASURE OF RETURN ON EQUITY COMPUTED FOR THE UTILITY UNDER ANALYSIS?

A. If a portion of the utility's earnings are related to subsidiary or affiliate companies not providing distribution services in Ohio, those earnings should be excluded for the SEET analysis. This is clearly stated in Ohio Revised Code 4928.143(F). In addition, specific adjustments were agreed upon per the Companies' approved ESP IV. Also, if portions of a company's net income are special, extraordinary, or nonrecurring, or are otherwise non-representative of the utility's operations, they should be excluded from the utility's return on equity calculation in order to present earnings that are more representative of the Companies' ongoing utility operations to better allow the Commission to assess whether the Companies' ESP IV resulted in significantly excessive earnings in 2017. These types of adjustments are consistent with the Order in Case No. 09-786-EL-UNC.

Q. DID YOU ADJUST BOTH THE NET INCOME AMOUNTS AND COMMON EQUITY BALANCES IN YOUR ANALYSIS?

A. Yes, the monthly adjustments for 2017 were applied to net income and were also applied to the determination of the average common equity balance.

Q. ARE THE COMMON EQUITY ADJUSTMENTS MADE IN THE 2017 SEET CUMULATIVE FROM THE START OF ESP IV?

A. Yes. The equity adjustments for the SEET associated with ESP IV are cumulative as of June 1, 2016.

Q. WHAT ARE THE EARNINGS, AVERAGE COMMON EQUITY, AND RETURN ON EQUITY FOR THE COMPANIES FOR 2017 SEET PURPOSES?

A. The earnings in 2017, adjusted for the items described above, were $126,320,235 for OE, $58,142,960 for CEI, and $34,110,490 for TE. The average common equity with adjustments for 2017 was $1,072,702,232 for OE, $1,436,357,709 for CEI, and

$529,304,805 for TE. The resulting return on equity for 2017 was 11.8% for OE, 4.0% for CEI, and 6.4% for TE. The underlying calculations supporting these amounts are shown in Schedules JSP-1, JSP-2, and JSP-3.

Q. DO YOU BELIEVE THAT ANY OF THE COMPANIES HAD SIGNIFICANTLY EXCESSIVE EARNINGS FOR 2017 WITHIN THE MEANING OF OHIO REVISED CODE 4928.143(F)?

A. No. Based upon my calculation of the Companies' returns on equity and the calculation of the mean return on equity for the comparable group of publicly traded companies and the analysis of SEET thresholds, using the methodology previously accepted by the Commission that is presented by Ms. Savage, I conclude that none of the Companies had significantly excessive earnings in 2017. The results of Ms. Savage's analysis of what would comprise the threshold for determining significantly excessive earnings are that each of the Companies' return on equity for 2017 (OE –11.8%, CEI – 4.0%, and TE –6.4%) is well below the significantly excessive earnings threshold of 19.2%. Further, my conclusion is supported by the fact that each of the Companies' return on equity earned in 2017, as stated previously, is less than the safe harbor value shown in Ms. Savage's analysis using the methodology previously accepted by the Commission. The safe harbor return was calculated at 200 basis points above the mean of the comparable companies in her analysis. The 2017 safe harbor return, consistent with the Staff methodology, was 14.3%.

Q. HAS ANY ADDITIONAL ANALYSIS OF THE COMPARABLE GROUP'S RETURN ON EQUITY BEEN CONDUCTED?

A. No. While other methodologies for calculating the mean return on equity of the comparable group may be more appropriate, as described by Ms. Savage, no additional analysis is necessary since OE, CEI, and TE each have earned returns on equity for 2017 that are lower than the SEET safe harbor threshold calculated using the methodology previously accepted by the Commission and presented in the testimony of Ms. Savage.

Q. IN REACHING YOUR CONCLUSION, DID YOU TAKE INTO CONSIDERATION THE CAPITAL REQUIREMENTS OF THE COMPANIES' FUTURE COMMITTED INVESTMENTS IN OHIO?

A. No. As was the case with the Companies' prior SEET filings, since the equity return results of the Companies are well below the thresholds of what would comprise significantly excessive earnings as compared with the comparable group of publicly traded companies, I did not consider such an analysis necessary.

Q. PURSUANT TO OHIO ADMINISTRATIVE CODE 4901:1-35-03(C)(10)(a), WHAT ARE THE COMPANIES' CAPITAL BUDGET REQUIREMENTS FOR FUTURE COMMITTED INVESTMENTS IN OHIO FOR EACH ANNUAL PERIOD FOR THE REMAINING ESP PERIOD?

A. As discussed in the Application, the Companies' capital requirements can be found on page 14 of the 2017 SEC Form 10-K. The URL where the SEC Form 10-K can be found on the Internet is provided in the Application.

Q. PLEASE DISCUSS THE FINDING AND ORDER AND ENTRY ON REHEARING IN CASE NO. 09-786-EL-UNC AS THEY RELATE TO THE COMPANIES.

A. The Finding and Order and the Entry on Rehearing provide direction on a number of issues that had been the topic of much discussion in the Companies' and other electric utilities' ESP cases and Case No. 09-786-EL-UNC. The Finding and Order took the form of responding to eleven questions that had been previously posted to the Commission's website and available to the Companies and other electric utilities for comment and that were addressed in the question and answer session held before the Commission on April 1, 2010. In several of the Commission's responses to the eleven questions, electric utilities are directed to file additional information and hypothetical scenarios (e.g., impacts to the SEET from earnings differences with and without implementation of an ESP and impacts from including and excluding deferrals) to facilitate the Commission's consideration of whether an electric utility had significantly excessive earnings in the prior year. For example, electric utilities are directed to address in their SEET filings the effect of including and excluding off-system sales, deferrals, and the differences between an electric utility's ESP and its prior rate plan. In addition, the Commission discusses giving consideration to other broad factors in its review, including factors related to an electric utility's risk profile. The Entry on Rehearing further addressed these issues.

Q. DO THE FINDING AND ORDER AND THE ENTRY ON REHEARING IN CASE NO. 09-786-EL-UNC PROVIDE GUIDANCE AS TO WHEN AN ELECTRIC UTILITY MUST INCLUDE IMPACTS TO THE SEET FROM EARNINGS DIFFERENCES UNDER A UTILITY'S CURRENT RATE PLAN AND PRIOR RATE PLAN?

A. Yes. On page 29 of the Order the Commission establishes a "safe harbor" of 200 basis points above the mean ROE of the comparable group. Page 29 of the Finding and Order states, in part, "…any electric utility earning less than 200 basis points above the mean of the comparable group will be found not to have significantly excessive earnings." On page 5 of the Entry on Rehearing the Commission clarifies that information comparing a utility's earnings under the current rate plan and prior rate plan is not required to be filed in years where an electric utility can demonstrate that it does not exceed the "safe harbor", and this appears to have been reaffirmed in the Commission's Opinion and Order in AEP Ohio's SEET proceeding, Case No. 10-1261-EL-UNC.

This directive is applicable here since the "safe harbor" for OE, CEI, and TE is 14.3% using the methodology presented by Ms. Savage. As noted above, each of the Companies' returns on equity for 2016 (OE –11.8%, CEI – 4.0%, and TE – 6.4%) are within (i.e. less than) the "safe harbor".

Q. DID THE COMPANIES PROVIDE A COMPARISON OF EARNINGS UNDER THE ESP IV TO WHAT MAY HAVE OCCURRED HAD THE PRIOR RATE PLAN BEEN IN EFFECT IN THIS FILING?

A. No, for the reasons described in my answer to the preceding question.

Q. DID THE COMPANIES PROVIDE SEET CALCULATIONS WITH AND WITHOUT THE IMPACT OF DEFERRALS IN THIS FILING?

A. No. This information was not necessary because it would not have a material impact on the determination of whether the Companies had significantly excessive earnings in 2017.

Q. PLEASE DISCUSS THE SECOND PARAGRAPH OF PAGE 29 OF THE FINDING AND ORDER IN CASE NO. 09-786-EL-UNC.

A. In the second paragraph of page 29 of the Finding and Order the Commission discusses giving consideration to a broad range of factors in its determination of whether an electric utility had significantly excessive earnings in the prior year. These factors include an electric utility's most recently authorized return on equity and an electric utility's risk profile, itself comprised of several components. Many of these factors have been extensively addressed and litigated before the Commission in other proceedings, such as the Companies' most recent distribution rate case (Case No. 07-551-EL-AIR), the Companies' first ESP case (Case No. 08-935-EL-SSO), the Companies' second ESP case (Case No. 10-388-EL-SSO), the Companies' third ESP case (Case No. 12-1230-EL-SSO), the Companies' ESP IV, and other cases. The records in these cases, including the Companies' testimony, are publicly available on the Commission's website. Below I will briefly address these additional factors from the second paragraph of page 29 of the Finding and Order in Case No. 09-786-EL-UNC, to the extent not already discussed elsewhere in my testimony.

Q. DO THE COMPANIES OWN GENERATION?

A. No, the Companies do not own any generation. The Companies acquire all power necessary to serve their standard service offer customers through competitive bid processes. The bidding processes are conducted by an independent auction manager who selects the winning bidder(s) subject to Commission oversight.

Q. DID ESP IV IN EFFECT IN 2017 FOR THE COMPANIES INCLUDE A FUEL AND PURCHASED POWER ADJUSTMENT OR OTHER SIMILAR ADJUSTMENTS?

A. As discussed in the Companies' ESP IV, the Companies have rider mechanisms that recover generation-related expenses for customers who take standard service offer ("SSO") generation service from the Companies. For example, the Generation Service Rider ("Rider GEN") recovers the cost of providing SSO generation service including energy and capacity, resource adequacy requirements, market-based transmission service and transmission ancillaries. The Generation Cost Reconciliation Rider ("Rider GCR") reconciles any under or over recovery of the Companies' cost of providing SSO generation service.

Q. DO THE COMPANIES MAKE OFF-SYSTEM SALES?

A. No. The Companies do not make off-system sales since they do not own generation assets. Therefore, there is no impact from off-system sales on the Companies' SEET analysis.

Q. PLEASE DISCUSS THE COMPANIES' RATE DESIGN AND THE EXTENT TO WHICH THE COMPANIES REMAIN SUBJECT TO WEATHER AND ECONOMIC RISK.

A. The Companies' rate design has been the subject of significant discussion, negotiation, and litigation before the Commission over the past several years in the most recent distribution rate case, the ESP cases, and other cases. The Companies' distribution rate design was established in the most recent distribution rate case and generation and transmission rate design was established in the ESP cases. Further detail about the Companies' rate design can be found in the records in these cases. Kilowatt-hour sales and kilowatt demands are impacted by weather and the economy. To the extent that kilowatt-hour sales and kilowatt demands deviate from the levels used to establish the Companies' rates, differences will exist in the revenues collected by the Companies as compared to the revenue requirement used in setting the current rates.

Q. PLEASE DESCRIBE THE COMPANIES' ACTIONS WITH RESPECT TO MEETING INDUSTRY CHALLENGES TO MAINTAIN AND IMPROVE THE COMPETITIVENESS OF OHIO'S ECONOMY.

A. In June 2013, the Companies became the first utilities in the state of Ohio to take advantage of Ohio's new securitization legislation, which became effective in March 2012. In 2012, the PUCO approved the Companies' request to securitize deferred costs that were already being recovered from customers under certain approved recovery riders associated with deferred generation and fuel costs, as well as discounts for certain residential customers. The securitization transaction allowed the Companies to reduce costs to customers by financing deferred costs using AAA-rated, long-term securitization financing. Securitization continued to benefit customers in 2017 by providing both cost savings and rate mitigation. The transaction was designed to result in annual savings, nominal savings, and net present value savings. Across the Companies, the nominal savings total approximately $106 million through 2035. The $106 million in customer savings can be reinvested back into the local economy to improve the competitiveness of Ohio's economy.

As discussed in the stipulations and supporting testimony, the Companies' ESPs provide more certain and stable rate levels than otherwise would have been in place and advance renewable energy and energy efficiency in Ohio. The Companies' ESPs have resulted in a competitive market for generation service through the competitive bidding process for SSO customers, retail shopping, and governmental aggregation. Further, the Companies' ESPs provide funding for lower income customers and for economic development purposes and include an Economic Development Rider ("Rider EDR") that provides credits to certain customer groups to help transition those customers to market based pricing. The Companies' ESP IV also establishes a

Customer Advisory Agency designed to ensure the preservation and growth of the competitive market in Ohio on behalf of residential customers, and makes significant funds available to support economic development in their service territories. The Companies' ESPs were supported by signatory parties representing varied and diverse interests, such as large industrial customers, small- and medium-sized manufacturers, small businesses, schools, residential customers including lower income residential customers, and governmental entities. The Companies' ESP IV provides a number of mechanisms that support state policy and improve the competitiveness of Ohio's economy.

Q. PLEASE DESCRIBE THE COMPANIES' ACTIONS WITH RESPECT TO INNOVATION AND INDUSTRY LEADERSHIP INVOLVING INVESTMENT, RESEARCH AND DEVELOPMENT OF ADVANCED TECHNOLOGIES, AND INNOVATIVE PRACTICES.

A. FirstEnergy continues to take numerous actions with respect to innovation and advanced technologies, including the areas of mobile communications, system reliability, grid modernization, energy efficiency and peak demand reduction, energy storage, electric transportation, and resource diversity.

Mobile Communications

FirstEnergy is an industry leader for its use of mobile website and smartphone apps to enhance customers' experiences. The new tools make it easier for customers to access important information and services related to their electric accounts. Features of the mobile website and smartphone apps include a simple power outage reporting process and access to the Companies' 24/7 Power Center outage maps. These features were enhanced in recent years to improve overall stability and performance, and were transitioned to a more popular and intuitive map interface. Other features benefitting customers in 2017 were: secure and convenient account access to review and pay monthly electric bills, analyze electric usage, and enroll in electronic billing; a click-to-call feature to reach customer service and links to the Companies' social media sites; and one-click access to the FirstEnergy website from each page of the mobile site. The mobile apps include integrated branding and functionality reflective of the Companies. Customers also have the option to sign up for text message alerts related to Storms and Weather, Outage Updates, Bill Available, Payment Due, Payment Posted and Meter Read Reminder updates. Completed in August 2017, the firstenergycorp.com website and all associated customer tools and functionality were completely redesigned to ensure a consistent user experience across all screen sizes and devices.

The Companies are also now using new technology tools to streamline power restoration efforts. To help expedite the process of power restoration, FirstEnergy has developed two new apps that employees can use on mobile devices to automatically enter damage information into the Companies' outage management system. The hazard app allows responders to electronically document hazardous situations that need to be cleared before a repair can be made. Once a hazard is cleared, repair crews can use the damage assessment app on company laptops to develop an itemized list of materials and equipment needed to make repairs at damaged locations.

System Reliability

In 2017, FirstEnergy received several Electric Power Research Institute ("EPRI") Technology Transfer Awards for key industry studies and research projects, including three to improve overall system reliability. The first award recognized the company's application of EPRI's Optimal Blackstart Capability (OBC) tool and leadership in identifying functional requirements, technology gaps, and optimal locations and sizing for new blackstart resources. The second award recognized FirstEnergy's application of EPRI's Alarm Management research. This project addressed the technology gap in alarm management for transmission control centers (TCC). Using industry standards, the company benchmarked the performance of TCC alarm management systems to identify opportunities to improve TCC alarm management practices and critical alarm notifications. The third award on Cyber Security Metrics for the Electric Sector, recognized the company's role in helping define multiple utility cyber security metrics. This information was used to develop a framework to help determine a utility's cyber security readiness and plan for investment and infrastructure to enhance protection against cyber threats.

Grid Modernization

The Companies continued to employ a Smart Grid Modernization Initiative ("SGMI") pilot program in 2017 to test and validate the integration of smart grid technologies with existing distribution system infrastructure, examine how existing infrastructure will function when combined with smart grid technologies, and evaluate the benefits to customers and the environment.

The SGMI also includes evaluation of integrated volt/var control systems and distribution automation for grid efficiency and reliability enhancements. The Companies will continue to evaluate these advanced technologies and their impact on reliability and energy usage through May 2019 in the pilot area. As part of this initiative, the Companies have deployed advanced meter technologies to a pilot group of customers. The Companies continue to offer to customers in the pilot areas the Residential Critical Peak Pricing Rider ("Rider RCP"), a time of use rate with critical peak periods, to up to 250 residential customers.

On February 29, 2016, the Companies filed a Grid Modernization Business Plan with the Commission that highlights future initiatives for Commission consideration, including investment in advanced metering infrastructure ("AMI"), advanced distribution management system ("ADMS"), distribution automation ("DA"), and Integrated Volt/Var Control ("IVVC") across the Companies' service territories. Three scenarios are included in the Companies' Business Plan filing, each of which incorporates full deployment of AMI and ADMS, together with DA and IVVC to varying degrees. All scenarios are expected to provide significant benefits to the Companies' customers. Through projects such as DA, the Companies' distribution system is expected to experience increased efficiency and reliability, while projects such as IVVC and AMI may reduce energy consumption and peak demand. The Plan demonstrates that when these technologies are deployed together, significant synergies can be realized and a comprehensive modern grid system can be developed that: (i) improves system reliability; (ii) reduces operating costs; (iii) enhances non-operational benefits to customers and society; (iv) provides customers with information to better manage their electricity consumption; and (v) provides more detailed information to competitive retail electric service ("CRES") providers. The Grid Modernization Business Plan is subject to Commission review and approval. Further in 2017, the Companies continued to participate in *PowerForward*, the PUCO's review of the latest in technological and regulatory innovation that could serve to enhance the consumer electricity experience.

The Companies filed their Distribution Platform Modernization Plan ("DPM Plan") on December 4, 2017. The DPM Plan includes creating new circuit ties, reconductoring, adding reclosers and installing supervisory control and data acquisition (SCADA) and an Advanced Distribution Management System ("ADMS"). The DPM Plan will provide customer benefits by improving reliability and reducing the duration of outages following major storms. It will also help create the platform necessary for future investment in grid modernization.

<u>Energy Efficiency and Peak Demand Response</u>

The Companies' 2017-2019 portfolio of energy efficiency ("EE") and peak demand reduction ("PDR") programs in Case No. 16-743-EL-POR were approved with modification by the Commission in November 2017. This portfolio offers customers programs designed to reduce energy use and contributions to peak demand. The Companies' portfolio plan offers robust comprehensive energy efficiency programs including the expansion of historic offerings that include best practice ideas from utility peers in Ohio and nationally, including the addition of smart thermostats and the prioritization of LED lighting.

FirstEnergy participates in EPRI's End-Use Energy Efficiency (EE) & Demand Response (DR) Research to explore the potential of newly developed or emerging technologies for inclusion in EE Programs. The Companies also participate in various EPRI national technology demonstrations to evaluate next-generation EE equipment for customers. These assessments include national studies such as EPRI's collaborative research to evaluate the effectiveness of various Smart Thermostats on energy and demand savings, and next-generation heat pumps. EPRI's research also supports C&I customer efficiency assessments for equipment such as advanced lighting, heat recovery chillers, variable speed drives, and premium efficiency motors.

FirstEnergy is also part of EPRI's national Industrial Center of Excellence and Data Center Interest Groups to evaluate new and emerging technologies that could provide more efficient use of energy in commercial and institutional buildings, manufacturing facilities and data centers.

Energy Storage

FirstEnergy continues to be engaged in research and development related to energy storage analysis, demonstration, and evaluation through EPRI. FirstEnergy has several energy storage research projects, one of which is called the Sustainable and Holistic Integration of Energy Storage and Solar PV (SHINES), a three-year, collaborative research initiative funded by the U.S. Department of Energy ("DOE") SunShot Initiative,. This program develops and demonstrates integrated photovoltaic (PV) and energy storage solutions that are scalable, secure, reliable, and cost-effective. It supports the transformation of the design and operation of the electric power system in order to integrate solar photovoltaic generation, load management, and energy storage technologies. A second demonstration project integrates energy storage with a wind system to mitigate the wind generation variability impacts and shift the generation to when it is needed. Another EPRI project involves modeling and analysis of the impacts of energy storage operations on the distribution system.

Additionally, FirstEnergy participates in EPRI's Energy Storage Integration Council, a collaborative of utilities, vendors, national labs, and industry experts whose goal is to advance the deployment and integration of energy storage systems in utility applications. This open, technical industry collaboration is guided by the objectives of ensuring safe, secure, reliable, affordable, and environmentally-responsible electricity for all customers.

Electric Transportation

The Companies also participate in industry research and development through EPRI and the demonstration of electric vehicles (EVs) in order to evaluate their impacts related to grid infrastructure, economic development, and the environmental aspects of PEV technology. FirstEnergy has been part of several national collaborative research projects to evaluate PEVs and their interface to the utility grid. Through an EPRI-led industry DOE award, the Companies are testing Plug-in Hybrid Electric Vehicle vans to evaluate their performance and charging capabilities. Also, the Companies are conducting vehicle charging demonstrations in Ohio to identify practical approaches to EV smart charging, assess customer usage behaviors, grid-vehicle connectivity, standards-based communications, and off-peak charging.

The Companies are active in Ohio in encouraging Plug-in Electric Vehicle Infrastructure Readiness and installing workplace charging stations locally. As part of these PEV initiatives, the Companies supported Clean Fuels Ohio, and other stakeholders in their implementation of an "*EV Readiness Plan for Ohio*", sponsored through several grants under the US DOE's Clean Cities Program. The Companies have also conducted non-road electric transportation technology evaluations, such as electric forklifts, that provide customers with clean and cost-effective material handling solutions.

FirstEnergy, along with Ohio's other major electric utilities, is part of EPRI's National Electrification efforts to support the application of efficient electric technologies that benefit residential, commercial and industrial customers through increased customer productivity, lower costs, and reduced emissions. As part of this initiative, the company hosted an EPRI Electrification Regional Workshop, highlighting key technologies, and their national assessment of the benefits of electrification.

<u>Resource Diversity</u>

As part of the Third Supplemental Stipulation in the Companies' ESP IV, which was approved with modifications by the Commission on March 31, 2016, the Companies made significant commitments to further promote and support resource diversity related to carbon reduction, advanced technologies, and renewable energy. As part of ESP IV, FirstEnergy will establish a goal to reduce carbon emissions by at least 90% below 2005 levels by 2045, which represents a reduction of over 80 million tons of carbon and is among the most aggressive targets in the utility industry. The Companies may procure increased renewable resources, namely wind and solar, to further diversify the generation mix in the state of Ohio. Under ESP IV, the Companies will also be an innovator by advocating at FERC for market enhancements such as a long-term capacity product and any other market improvements. The Companies will file periodic reports with the Commission highlighting their then-current strategy regarding these commitments.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

2017 Significantly Excessive Earnings Test (SEET)
Return on Equity Calculation

Line	Description	OE	CEI	TE	Source
1	SEET Net Income	126,320,235	58,142,960	34,110,490	Schedule JSP-2, Page 1, Line 5
2	SEET Common Equity	1,072,702,232	1,436,357,709	529,304,805	Schedule JSP-3, Page 2, Line 66
3	SEET Return on Equity	11.8%	4.0%	6.4%	Calculation: Line 1 / Line 2

Note: See Schedules JSP-2 and JSP-3 for the calculation of Net Income and Common Equity.

2017 Significantly Excessive Earnings Test (SEET)
Net Income Calculation

Line	Description	OE	CEI	TE	Source
1	Net Income	262,924,574	119,438,158	73,726,378	2017 Q4 FERC Form 1, Page 117, Line 78
2	Affiliate Company Earnings	(39,056,908)	(4,855,915)	(1,191,544)	Supporting Workpapers
3	Distribution Modernization Rider Revenues Net of Tax	(58,518,353)	(45,752,174)	(24,948,727)	Supporting Workpapers
4	Special / Extraordinary Items After-Tax	(39,029,078)	(10,687,110)	(13,475,617)	Supporting Workpapers
5	SEET Net Income	126,320,235	58,142,960	34,110,490	Calculation: Sum Lines 1 through 4

2017 Significantly Excessive Earnings Test (SEET)
Common Equity Calculation

Line	Month	Description	OE	CEI	TE	Source
1	December	12/31/16 Common Equity	1,124,183,742	1,376,069,660	569,946,418	2016 Q4 FERC Form 1, Page 112, Line 16
2		Affiliate Company Earnings	(19,444,527)	(2,820,477)	(539,277)	2016 SEET Filing
3		DMR Revenue Net of Tax	0	0	0	2016 SEET Filing
4		Special / Extraordinary Items After-Tax	4,397,665	11,200,103	2,059,718	2016 SEET Filing
5		12/31/16 SEET Common Equity	1,109,136,880	1,384,449,286	571,466,859	Calculation: Sum Lines 1 through 4
6	January	1/31/17 Common Equity	1,092,201,072	1,378,530,599	576,329,840	Financial Reporting Dept.
7		Affiliate Company Earnings	(22,672,389)	(3,234,083)	(634,873)	Supporting Workpapers
8		DMR Revenue Net of Tax	(4,790,480)	(3,321,982)	(2,120,543)	Supporting Workpapers
9		Special / Extraordinary Items After-Tax	3,615,253	10,884,501	1,913,355	Supporting Workpapers
10		1/31/17 SEET Common Equity	1,068,353,456	1,382,859,035	575,487,780	Calculation: Sum Lines 6 through 9
11	February	2/28/17 Common Equity	1,107,599,996	1,385,049,861	579,089,956	Financial Reporting Dept.
12		Affiliate Company Earnings	(26,159,520)	(3,632,098)	(720,419)	Supporting Workpapers
13		DMR Revenue Net of Tax	(9,718,610)	(7,524,007)	(4,100,128)	Supporting Workpapers
14		Special / Extraordinary Items After-Tax	2,893,666	10,630,140	1,776,528	Supporting Workpapers
15		2/28/17 SEET Common Equity	1,074,615,532	1,384,523,896	576,045,937	Calculation: Sum Lines 11 through 14
16	March	3/31/17 Common Equity	1,080,516,400	1,394,443,907	583,440,097	2017 Q1 FERC Form 3Q, Page 112, Line 16
17		Affiliate Company Earnings	(30,766,472)	(4,031,014)	(825,456)	Supporting Workpapers
18		DMR Revenue Net of Tax	(14,680,646)	(11,370,128)	(6,181,468)	Supporting Workpapers
19		Special / Extraordinary Items After-Tax	2,073,565	10,262,394	1,629,145	Supporting Workpapers
20		3/31/17 SEET Common Equity	1,037,142,848	1,389,305,159	578,062,317	Calculation: Sum Lines 16 through 19
21	April	4/30/17 Common Equity	1,095,285,668	1,401,507,485	585,637,000	Financial Reporting Dept.
22		Affiliate Company Earnings	(33,966,108)	(4,420,997)	(948,801)	Supporting Workpapers
23		DMR Revenue Net of Tax	(18,898,929)	(14,857,858)	(8,069,037)	Supporting Workpapers
24		Special / Extraordinary Items After-Tax	1,212,470	9,890,358	1,467,669	Supporting Workpapers
25		4/30/17 SEET Common Equity	1,043,633,101	1,392,118,987	578,086,830	Calculation: Sum Lines 21 through 24
26	May	5/31/17 Common Equity	1,109,101,368	1,408,600,942	587,621,297	Financial Reporting Dept.
27		Affiliate Company Earnings	(35,339,039)	(4,810,506)	(1,073,449)	Supporting Workpapers
28		DMR Revenue Net of Tax	(23,398,499)	(18,446,526)	(9,989,743)	Supporting Workpapers
29		Special / Extraordinary Items After-Tax	348,831	9,495,479	1,290,857	Supporting Workpapers
30		5/31/17 SEET Common Equity	1,050,712,661	1,394,839,389	577,848,962	Calculation: Sum Lines 26 through 29
31	June	6/30/17 Common Equity	1,083,781,244	1,422,626,151	559,840,188	2017 Q2 FERC Form 3Q, Page 112, Line 16
32		Affiliate Company Earnings	(38,816,327)	(5,199,928)	(1,194,109)	Supporting Workpapers
33		DMR Revenue Net of Tax	(28,473,217)	(22,402,600)	(12,101,869)	Supporting Workpapers
34		Special / Extraordinary Items After-Tax	(382,337)	9,276,906	1,143,818	Supporting Workpapers
35		6/30/17 SEET Common Equity	1,016,109,363	1,404,300,529	547,688,028	Calculation: Sum Lines 31 through 34

2017 Significantly Excessive Earnings Test (SEET)
Common Equity Calculation

Line	Month	Description	OE	CEI	TE	Source
36	July	7/31/17 Common Equity	1,114,862,879	1,436,860,682	567,510,487	Financial Reporting Dept.
37		Affiliate Company Earnings	(44,034,730)	(5,589,246)	(1,315,077)	Supporting Workpapers
38		DMR Revenue Net of Tax	(34,037,679)	(26,560,677)	(14,436,625)	Supporting Workpapers
39		Special / Extraordinary Items After-Tax	(894,854)	9,087,973	986,986	Supporting Workpapers
40		7/31/17 SEET Common Equity	1,035,895,616	1,413,798,732	552,745,772	Calculation: Sum Lines 36 through 39
41	August	8/31/17 Common Equity	1,139,545,984	1,450,239,126	573,682,757	Financial Reporting Dept.
42		Affiliate Company Earnings	(47,868,137)	(5,994,264)	(1,415,774)	Supporting Workpapers
43		DMR Revenue Net of Tax	(39,287,267)	(30,739,337)	(16,646,177)	Supporting Workpapers
44		Special / Extraordinary Items After-Tax	(1,384,428)	8,893,724	832,438	Supporting Workpapers
45		8/31/17 SEET Common Equity	1,051,006,152	1,422,399,249	556,453,244	Calculation: Sum Lines 41 through 44
46	September	9/30/17 Common Equity	1,059,398,697	1,410,115,695	479,061,476	2017 Q3 FERC Form 3Q, Page 112, Line 16
47		Affiliate Company Earnings	(50,912,024)	(6,389,881)	(1,530,748)	Supporting Workpapers
48		DMR Revenue Net of Tax	(44,035,883)	(34,485,992)	(18,730,942)	Supporting Workpapers
49		Special / Extraordinary Items After-Tax	(1,892,376)	8,696,908	679,835	Supporting Workpapers
50		9/30/17 SEET Common Equity	962,558,415	1,377,936,730	459,479,620	Calculation: Sum Lines 46 through 49
51	October	10/31/17 Common Equity	1,075,647,522	1,417,449,116	483,368,736	Financial Reporting Dept.
52		Affiliate Company Earnings	(54,092,265)	(6,866,583)	(1,594,041)	Supporting Workpapers
53		DMR Revenue Net of Tax	(48,644,404)	(38,153,308)	(20,777,793)	Supporting Workpapers
54		Special / Extraordinary Items After-Tax	(2,385,037)	8,508,802	534,494	Supporting Workpapers
55		10/31/17 SEET Common Equity	970,525,816	1,380,938,026	461,531,397	Calculation: Sum Lines 51 through 54
56	November	11/30/17 Common Equity	1,095,680,249	1,425,576,735	487,368,736	Financial Reporting Dept.
57		Affiliate Company Earnings	(58,115,503)	(7,261,994)	(1,659,131)	Supporting Workpapers
58		DMR Revenue Net of Tax	(53,301,173)	(41,742,562)	(22,738,157)	Supporting Workpapers
59		Special / Extraordinary Items After-Tax	(2,878,135)	8,326,828	377,434	Supporting Workpapers
60		11/30/17 SEET Common Equity	981,385,439	1,384,899,006	463,348,883	Calculation: Sum Lines 56 through 59
61	December	12/31/17 Common Equity	1,187,918,784	1,541,181,704	525,238,197	2017 Q4 FERC Form 1, Page 112, Line 16
62		Affiliate Company Earnings	(58,501,435)	(7,676,392)	(1,730,821)	Supporting Workpapers
63		DMR Revenue Net of Tax	(58,518,353)	(45,752,174)	(24,948,727)	Supporting Workpapers
64		Special / Extraordinary Items After-Tax	(34,631,413)	512,993	(11,415,899)	Supporting Workpapers
65		12/31/17 SEET Common Equity	1,036,267,583	1,488,266,132	487,142,750	Calculation: Sum Lines 61 through 64
66		SEET Average Common Equity	1,072,702,232	1,436,357,709	529,304,805	Calculation: 13-Month Average

[Attachment 2 to Application]

BEFORE THE

PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Determination of the Existence of Significantly Excessive Earnings for 2017 Under the Electric Security Plan of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company	**Case No. 18-857-EL-UNC**

DIRECT TESTIMONY OF

JOANNE M. SAVAGE

ON BEHALF OF

OHIO EDISON COMPANY
THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
THE TOLEDO EDISON COMPANY

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is Joanne M. Savage. My business address is FirstEnergy Corp. ("FirstEnergy"), 76 South Main Street, Akron, Ohio 44308. I am employed by FirstEnergy Service Company in the Rates and Regulatory Affairs Department – Ohio, as Manager, Revenue Requirements. This Department provides regulatory support for Ohio Edison Company ("Ohio Edison"), The Cleveland Electric Illuminating Company ("CEI") and The Toledo Edison Company ("Toledo Edison") (collectively, "Companies").

Q. WHAT ARE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS?

A. I received a Bachelor of Science degree in Accounting and Finance from Albright College and a Master of Business Administration degree in Corporate Finance from Alvernia University. I have been employed by FirstEnergy Service Company since 2005 and have held various positions of increasing responsibility in the Rates and Regulatory Affairs Department since that time. In May 2016, I was named to my current position.

Q. WHAT ARE YOUR CURRENT JOB DUTIES AND RESPONSIBILITIES?

A. I am responsible for analyzing financial data of the Companies for various projects, preparing state regulatory filings and associated rate case materials, and working with the Staff of the Public Utilities Commission of Ohio ("Commission", or "PUCO"). I also conduct research and analyses for a number of regulatory proceedings including, but not limited to the FirstEnergy SmartGrid Modernization Initiative, Electric Security Plan(s), the Companies' securitization, and various riders. In performing my duties, I interact with various groups that are responsible for business planning, accounting, and reporting on behalf of the Companies, as well as customer service representatives on various issues related to the Companies' tariffs and Electric Service Regulations. In addition to my experience in Ohio, I spent six years providing regulatory support and analyses for the FirstEnergy Pennsylvania utilities.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY PROCEEDINGS?

A. Yes. I have previously testified before the Commission on behalf of Toledo Edison in Case No. 13-2145-EL-CSS and on behalf of Ohio Edison, CEI and Toledo Edison in Case Nos. 14-1297-EL-SSO, 16-0925-EL-UNC and 17-993-EL-UNC. I have also testified before the Pennsylvania Public Utility Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to present information for purposes of the Commission's annual test with respect to whether the Companies' Electric Security Plan has resulted in significantly excessive earnings per Ohio Revised Code 4928.143(F) ("Significantly Excessive Earnings Test" or "SEET"). I am responsible for providing the analysis of the return on equity ("ROE") earned by the comparable group of publicly traded companies during 2017 consistent with the methodology previously conducted by PUCO Staff in other SEET proceedings. I also calculate the safe harbor threshold and the threshold above such return at which the Companies' earnings would be considered significantly excessive.

Q. WHAT MATERIALS HAVE YOU INCLUDED WITH YOUR TESTIMONY?

A. I have included the following attachment to my testimony:

Schedule JMS-1 Calculation of Comparable ROE

Q. PLEASE DESCRIBE THE METHODOLOGY USED FOR YOUR ANALYSIS.

A. For purposes of my analysis, I am following the methodology previously conducted by PUCO Staff and accepted as valid by the Commission in other SEET proceedings. The source of my data is believed to be consistent with the source used by PUCO Staff in the Companies' 2013 SEET filing in Case No. 14-828-EL-UNC ("2013 SEET"), and is consistent with the Companies' testimony in their 2014 SEET filing in Case No. 15-1450-EL-UNC, their 2015 SEET filing in Case No. 16-925-EL-UNC and their 2016 SEET filing in Case No. 17-993-EL-UNC. This methodology is described by the Commission Opinion and Order in Case No. 11-4571-EL-UNC and presented by PUCO Staff witness Joseph P. Buckley in the Companies' 2013 SEET case. Under this methodology, the calculation of the baseline mean ROE utilizes the companies that comprise the SPDR Select Sector Fund-Utility ("XLU") as the comparable group. XLU is an Exchange Traded Fund ("ETF") comprised of electric utilities, multi-utilities, independent power producers and energy traders, and gas utilities. The mean earned ROE is calculated by adding the net income of the companies in the fund and dividing by the sum of average common equity of those companies. The SEET threshold is then calculated by applying an adder equal to 1.64 standard deviations to the baseline mean earned ROE.

Furthermore, as established in Case No. 09-786-EL-UNC ("Generic SEET Case"), a safe harbor threshold is established equal to 200 basis points above the baseline mean earned ROE.

Q. PLEASE SUMMARIZE THE RESULTS OF YOUR ANALYSIS.

A. Under the methodology described above and as shown in Schedule JMS-1, for 2017 the baseline mean earned ROE of XLU as the comparable risk group is 12.3%. Therefore under this methodology, the safe harbor threshold is 14.3%, and the SEET threshold is 19.2%.

Q. DO YOU BELIEVE THERE ARE OTHER APPROPRIATE METHODOLOGIES FOR CALCULATING THE MEAN ROE?

A. Yes. Other appropriate methodologies exist for calculating the mean ROE of the comparable group. For example, the methodology conducted by PUCO Staff could be modified to use a simple average instead of a weighted average in the calculation of the mean earned ROE. Under PUCO Staff's current methodology, the resulting mean earned ROE is a weighted average, which puts more weight to larger companies with higher common equity book values. Therefore, the ROE of a single large company will have a larger impact on the overall group average ROE than that of a smaller company. This may have the unintended consequence of driving the sample group average toward the ROE earned by fewer larger companies, and therefore would be less representative of returns being earned by companies for the comparison envisioned by the statute. The use of a simple average of each individual company's earned ROE would give the same weight to each of the companies in the sample and would also better align with the use of the standard deviation of the individual company ROE results to determine the SEET threshold. Likewise, the methodology provided by Dr. Michael J. Vilbert on behalf of the Companies in their 2009 – 2013 SEET proceedings represents another appropriate approach for the calculation of the mean earned ROE of the comparable group. Under Dr. Vilbert's methodology, the mean earned ROE is calculated based on a group of companies that have comparable business risk to the utility, making appropriate adjustments for differences in capital structure. While these other methodologies may be appropriate, no additional analysis is necessary in this proceeding since OE, CEI, and TE each have earned ROEs for 2017 that are lower than the SEET safe harbor threshold calculated using the above-described methodology employed by PUCO Staff and previously accepted by the Commission.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Calculation of Comparable ROE

Ticker *	**Common Equity**			**Net Profit**	**ROE**
	12/31/2016	**12/31/2017**	**Average**	**2017**	**2017**
NEE	24,341	28,208	26,275	4,893	18.6%
DUK	41,033	41,739	41,386	2,963	7.2%
SO	24,758	24,167	24,463	3,100	12.7%
D	14,605	17,142	15,874	3,352	21.1%
AEP	17,397	18,287	17,842	1,783	10.0%
EXC	25,837	29,857	27,847	4,279	15.4%
PCG	17,940	19,220	18,580	1,807	9.7%
PPL	9,899	10,761	10,330	1,385	13.4%
SRE	12,951	12,670	12,811	1,169	9.1%
PEG	13,130	13,847	13,489	2,245	16.6%
EIX	11,996	11,671	11,834	1,603	13.5%
ED	14,298	15,418	14,858	1,266	8.5%
XEL	11,021	11,455	11,238	1,171	10.4%
WEC	8,930	9,461	9,196	998	10.9%
ES	10,712	11,086	10,899	996	9.1%
DTE	9,011	9,512	9,262	1,029	11.1%
FE	6,241	3,925	5,083	1,155	22.7%
ETR	8,082	7,993	8,037	951	11.8%
AWK	5,218	5,385	5,302	535	10.1%
AEE	7,103	7,184	7,144	683	9.6%
CMS	4,253	4,441	4,347	610	14.0%
SCG	5,725	5,255	5,490	580	10.6%
CNP	3,460	4,688	4,074	679	16.7%
PNW	4,804	5,007	4,905	498	10.1%
NI	4,071	4,320	4,196	129	3.1%
LNT	3,862	4,182	4,022	456	11.3%
Total	320,677	336,881	328,779	40,314	
ROE [1]					**12.3%**
Standard Deviation [2]					4.2%
SEET adder (95% normal cumulative dist) [3]				**1.64**	6.9%
SEET Threshold [4]					19.2%

Sources: Valueline Investment Analyzer (Net Profit)
Bloomberg (Common Equity)

[1] Total Net Profit / Average Common Equity (2016-2017).

[2] One standard deviation (population) of 2017 ROE.

[3] +1.64x standard deviation (population) from mean 2017 ROE. This represents an ROE at the 95th percentile assuming a normal distribution.

[4] ROE + SEET adder.

* NRG, AES were excluded from this analysis, due to nonrecurring large impairment losses in 2017.