

OCC EXHIBIT NO. _____

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of the)
Existence of Significantly Excessive)
Earnings Test for 2017 Under the Electric) Case No. 18-0857-EL-UNC
Security plans of Ohio Edison Company,)
The Cleveland Electric Illuminating)
Company, and The Toledo Edison Company.)

**TESTIMONY
OF
DANIEL J. DUANN, Ph.D.
FOR CONSUMER PROTECTION FROM THE STIPULATION**

On Behalf of
The Office of the Ohio Consumers' Counsel
65 East State Street, 7th Floor
Columbus, Ohio 43215-4213

November 16, 2018

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Attachment DJD-1

1 **I. INTRODUCTION**

2

3 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.***

4 ***A1.*** My name is Daniel J. Duann. My business address is 65 East State Street, 7th
5 Floor, Columbus, Ohio, 43215-4213. I am the Assistant Director of Analytical
6 Services with the Office of the Ohio Consumers' Counsel ("OCC").

7

8 ***Q2. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING ON***
9 ***OCTOBER 16, 2018?***

10 ***A2.*** Yes. I will refer to that testimony as "Duann Direct Testimony."¹ It is
11 incorporated here as Attachment DJD-1.

12

13 **II. PURPOSE AND RECOMMENDATION**

14

15 ***Q3. WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?***

16 ***A3.*** The purpose of my testimony is to explain and support OCC's recommendations
17 in Objections that the PUCO should protect consumers from the Stipulation and
18 Recommendation ("Settlement") filed by FirstEnergy Service Company
19 ("FirstEnergy") on October 26, 2018.² FirstEnergy filed the proposed Settlement
20 on behalf of Ohio Edison Company ("Ohio Edison") and other Signatory Parties.

¹ *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 ("Ohio Edison 2017 SEET Case"), Direct Testimony of Daniel J. Duann, Ph.D. (October 16, 2018).

² Ohio Edison 2017 SEET Case, Stipulation and Recommendation (October 26, 2018).

**Q4. WHAT IS YOUR RECOMMENDATION REGARDING THE PROPOSED
SETTLEMENT?**

A4. I recommend that the Public Utilities Commission of Ohio (“PUCO”) protect consumers by rejecting the proposed Settlement. The Settlement is not reasonable or in the public interest. The Settlement also harms customers and violates regulatory principles and practices. Contrary to the claim by Ohio Edison and other Signatory Parties, the proposed Settlement does not represent a just and reasonable solution of issues raised in this proceeding.³ The proposed Settlement fails the three-part test under which settlements are evaluated by the PUCO.

The proposed Settlement is not a product of serious bargaining and meaningful compromise among the parties to this proceeding. The proposed Settlement, as a package, does not benefit customers or the public interest. Specifically, the proposed Settlement will deprive customers of receiving a \$42 million refund from Ohio Edison for its significantly excessive earnings in 2017.⁴ In addition, the terms and conditions of the Settlement do not satisfy the policies of the State of Ohio and they violate important regulatory principles.

³ See Ohio Edison 2007 SEET Case, Stipulation and Recommendation at 1.

⁴ See Duann Direct Testimony at 4.

1 ***Q5. DOES THE PROPOSED SETTLEMENT PRESENT ANY NEW AND***
2 ***USEFUL INFORMATION FOR THE RECORD IN THIS CASE?***

3 ***A5.*** No. The proposed Settlement and the Supplemental Testimony filed on October
4 26, 2018 do not contribute anything new or useful for the record of this
5 proceeding. They are just repetitions of the arguments made by Ohio Edison and
6 the PUCO in their previously-filed testimonies. No additional analysis and
7 explanation are provided in the proposed Settlement and Ohio Edison's
8 Supplemental Testimony. The Signatory Parties have not demonstrated that
9 customers and the public would benefit if the proposed Settlement were adopted.

10
11 To ensure regulatory efficiency and fairness, I recommend the PUCO not consider
12 the proposed Settlement. The PUCO should decide this case solely on the
13 Application and Direct Testimonies previously filed before the filing of the
14 proposed Settlement.

15
16 ***Q6. DOES THE PROPOSED SETTLEMENT OR OHIO EDISON'S***
17 ***SUPPLEMENTAL TESTIMONY CHANGE YOUR EARLIER CONCLUSION***
18 ***THAT CUSTOMERS ARE ENTITLED TO A \$42 MILLION REFUND FROM***
19 ***THE 2017 SIGNIFICANTLY EXCESSIVE EARNINGS TEST?***

20 ***A6.*** No. The proposed Settlement does not change my conclusion in the Duann Direct
21 Testimony filed on October 16, 2018. As discussed earlier, the proposed
22 Settlement is simply a rehash of the previously-filed positions of Ohio Edison and
23 the PUCO Staff. There are no new facts or arguments presented in the proposed

1 Settlement for me to consider or respond. I have also reviewed the Supplemental
2 Testimony by Ohio Edison witness Joanne M. Savage filed on October 26, 2018.⁵
3 There is no explanation or analysis provided in her Supplemental Testimony to
4 support her assertion that the proposed Settlement is in the public interest and
5 beneficial to the customers. I see no reason to change my conclusion that the
6 PUCO should order Ohio Edison to refund its customers \$42 million for its
7 significantly excessive earnings in 2017.⁶

8

9 ***Q7. WHAT IS YOUR UNDERSTANDING OF THE THREE-PRONG TEST THAT***
10 ***THE PUCO COMMONLY USES IN EVALUATING A PROPOSED***
11 ***SETTLEMENT?***

12 ***A7.*** As discussed earlier, I do not believe the proposed Settlement should be
13 considered in this proceeding. However, if it is to be considered, I understand
14 that the PUCO typically analyzes a proposed settlement under a three-prong test.
15 Specifically, the PUCO will consider:

- 16 (1) Is the proposed settlement a product of serious bargaining
17 among capable, knowledgeable parties representing diverse
18 interests?
19 (2) Does the proposed settlement, as a package, benefit
20 customers and the public interest?

⁵ See Ohio Edison 2007 SEET Case, Supplemental Testimony of Joanne M. Savage (October 26, 2018).

⁶ See Duann Direct Testimony at 4.

(3) Does the proposed settlement package violate any
important regulatory principle or practice?

If the PUCO determines that a proposed settlement does not meet each of the
three criteria outlined above, the proposed settlement would be rejected.

***Q8. IS THE PROPOSED SETTLEMENT A PRODUCT OF SERIOUS
BARGAINING AMONG CAPABLE, KNOWLEDGEABLE PARTIES?***

A8. No. There was not serious bargaining involving a balance of competing interests
regarding the settlement of this case. The first time I saw the proposed Settlement
was when it was docketed at the PUCO and available on its website. Absent the
participation of OCC, the interests of the 925,014 Ohio Edison residential
customers (89% of the total number of customers of 1,041,123) are not addressed
or represented at all in the process leading to the proposed Settlement or the
proposed Settlement itself.

Furthermore, if the PUCO were to adopt the proposed Settlement, it would violate
the PUCO's long-standing policy of promoting regulatory efficiency and
facilitating negotiation and settlement among parties with diverse interests. The
PUCO's adoption of the flawed and unreasonable
Settlement will not resolve this case quickly, but instead will create unnecessary
delay and additional uncertainty regarding Ohio Edison's 2017 SEET
Application.

**Q9. DOES THE PROPOSED SETTLEMENT BENEFIT CUSTOMERS AND THE
PUBLIC INTEREST?**

A9. No. The customers of Ohio Edison are harmed under the proposed Settlement.

As discussed in Duann Direct Testimony, Ohio Edison had significantly excessive earnings in 2017 and \$42,064,470 should be returned to customers through either a refund or a credit on their monthly electricity bills.⁷ If the proposed Settlement is adopted, Ohio Edison's customers will not receive either a SEET refund or a credit from the Utility.

There is no benefit to customers included in the proposed Settlement that would counterbalance or compensate customers for giving up the \$42 million SEET refund to which they are entitled. Ohio Edison's own witness cannot identify or quantify any customer benefits from the proposed Settlement in her Supplemental Testimony. At best, she provided a generic and unsubstantiated statement that the proposed Settlement would benefit customers and the public interest "as it contributes to a timely and reasonable resolution to this case."⁸ As discussed earlier, the filing of the proposed Settlement does not present any new or useful facts or arguments. The proposed Settlement is just a rehash of the previously-filed testimony of Ohio Edison and the PUCO Staff. The proposed Settlement will have no effect on the timeliness or the efficiency of the adjudication of this

⁷ See Duann Direct Testimony at 30.

⁸ See Ohio Edison 2007 SEET Case, Supplemental Testimony of Savage at 5.

1 case. As a result, the Settlement does not benefit customers. The so-called timely
2 resolution of this case only benefits the utility. Customers would be better off
3 with a timely resolution where they receive \$42 million in refunds from Ohio
4 Edison's significantly excessive earnings in 2017. Furthermore, the proposed
5 Settlement being a product of "negotiation" mainly by Ohio Edison and the
6 PUCO Staff, if adopted, would likely discourage participation and negotiation by
7 all parties with diverse interests in resolving difficult issues in many future cases
8 before the PUCO. Allowing this to happen will not achieve the PUCO's goal of
9 promoting regulatory efficiency.

10
11 ***Q10. DOES THE PROPOSED SETTLEMENT VIOLATE ANY IMPORTANT***
12 ***REGULATORY PRINCIPLE, PRACTICE, OR STATE POLICY?***

13 ***A10.*** Yes. The terms and conditions of the proposed Settlement violate important
14 regulatory principles and state policies. First of all, as discussed in Duann Direct
15 Testimony, the Distribution Modernization Rider ("Rider DMR") was approved
16 as part of Ohio Edison's most recent ESP. And the earnings resulting from Rider
17 DMR should be included in earnings for SEET purposes as a matter of fairness
18 and reasonableness for consumers. This requirement regarding SEET under Ohio
19 law cannot be disregarded through a settlement. Furthermore, as a result of
20 allowing the unreasonable reduction to Ohio Edison's 2017 earnings for the after-
21 tax Rider DMR revenue of \$58.5 million, Ohio Edison's 2017 SEET return on
22 equity will be reduced from 17.39% (as calculated in Duann Direct Testimony) to

1 11.80% (as recommended in the proposed Settlement).⁹ In doing so, the
2 customers of Ohio Edison will be deprived of a significant benefit (approximately
3 \$42 million) in the form of either a refund or a credit to their monthly bills. In
4 this regard, Ohio Edison's customers are being asked to pay unreasonably high
5 profits to Ohio Edison, resulting in unjust charges to consumers for essential
6 electric services. Thus, the proposed Settlement violates the fundamental
7 regulatory principle that the rates of regulated utility services must be just and
8 reasonable.¹⁰ This forbearance of a 2017 SEET refund of approximately \$42
9 million to which customers are entitled also abandons or at a minimum dilutes the
10 protection of electric utility customers intended by the Ohio General Assembly in
11 enacting the SEET statutes.¹¹

12
13 The proposed Settlement is also detrimental to the welfare of many Ohioans and
14 the Ohio economy. Specifically, I find the proposed Settlement, if adopted by the
15 PUCO, would violate state electric services policy regarding: (1) the availability
16 to consumers of adequate, reliable, safe, efficient, non-discriminatory, and
17 reasonably priced retail electric service; (2) the protection of at-risk populations;
18 and (3) the state's effectiveness in the global economy.¹²

⁹ See Duann Direct Testimony at 10.

¹⁰ See Ohio Revised Code 4905.22.

¹¹ See Ohio Revised Code 4928.143 (F).

¹² See Ohio Revised Code 4928.02 (A), (L), and (N).

***Q11. DOES THE PROPOSED SETTLEMENT RECOMMEND A ROE
THRESHOLD FOR OHIO EDISON'S 2017 SIGNIFICANTLY EXCESSIVE
EARNINGS TEST?***

A11. No. The proposed Settlement does not recommend a specific SEET ROE Threshold applicable to Ohio Edison's 2017 SEET. Without a SEET ROE Threshold, there is no basis to decide if Ohio Edison's SEET-adjusted ROE (either by Ohio Edison's own calculation or OCC's calculation) was significantly excessive or not. This is yet another example of the unreasonable nature of the proposed Settlement.

***Q12. WHAT IS YOUR PROPOSED ROE THRESHOLD FOR OHIO EDISON'S
2017 SIGNIFICANTLY EXCESSIVE EARNINGS TEST?***

A12. As discussed in my Direct Testimony, I proposed a SEET ROE Threshold of 14.91%. I believe this proposed SEET ROE Threshold is reasonable and fair to the customers and Ohio Edison. This proposed SEET ROE Threshold of 14.91% will allow Ohio Edison to earn a reasonable return on its capital investments and to maintain its ability to obtain funding from the financial markets at reasonable costs. This proposed SEET ROE Threshold of 14.91% is also the basis for calculating the \$42 million refund to be returned to Ohio Edison's customers.¹³

¹³ See Duann Direct Testimony at 29-30.

1 ***Q13. DOES THIS CONCLUDE YOUR TESTIMONY?***

2 ***A13.*** Yes. However, I reserve the right to supplement my testimony in the event that
3 additional testimony is filed, or if new information or data in connection with this
4 proceeding becomes available.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Testimony of Daniel J. Duann, Ph.D. In Opposition to the Stipulation on Behalf of the Office of the Ohio Consumers' Counsel*, was served via electronic transmission to the persons listed below on this 16th day of November 2018.

/s/ William J. Michael
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**DIRECT TESTIMONY
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**On Behalf of
The Office of the Ohio Consumers' Counsel
*65 East State Street, 7th Floor
Columbus, Ohio 43215-4213***

October 16, 2018

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*Direct Testimony of Daniel J. Duann, Ph.D.
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 18-0857-EL-UNC*

1 **I. INTRODUCTION**

2

3 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.***

4 ***A1.*** My name is Daniel J. Duann. My business address is 65 East State Street, 7th
5 Floor, Columbus, Ohio, 43215-4213. I am the Assistant Director of Analytical
6 Services with the Office of the Ohio Consumers' Counsel ("OCC").

7

8 ***Q2. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND***
9 ***EDUCATIONAL BACKGROUND.***

10 ***A2.*** I joined OCC in January 2008 as a Senior Regulatory Analyst. I was promoted to
11 the position of Principal Regulatory Analyst in November 2011 and to my current
12 position in June 2018. My primary responsibility is to assist OCC by
13 participating in proceedings before the Public Utilities Commission of Ohio
14 ("PUCO"). These proceedings include rate cases, cost of capital, alternative
15 regulation, fuel adjustment clause, standard service offer, and other types of cases
16 filed by Ohio's electric, gas, and water utilities.

17

18 Prior to join OCC, I was a Utility Examiner II in the Forecasting Section of the
19 Ohio Division of Energy, Ohio Department of Development from 1983 to 1985.
20 The Forecasting Section was later transferred to the PUCO. From 1985 to 1986, I
21 was an Economist with the Center of Health Policy Research at the American
22 Medical Association in Chicago. In late 1986, I joined the Illinois Commerce
23 Commission as a Senior Economist at its Policy Analysis and Research Division.

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On Behalf of the Office of the Ohio Consumers' Counsel
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1 From 1987 to 1995, I was employed as a Senior Institute Economist at the
2 National Regulatory Research Institute (“NRRI”) at The Ohio State University.
3 NRRI has been a policy research center funded by the National Association of
4 Regulatory Utility Commissioners and state public utilities commissions since
5 1976. NRRI is currently located in Silver Spring, Maryland and is no longer a
6 part of The Ohio State University. My work at NRRI involved research,
7 authoring publications, and public services in many areas of utility regulation and
8 energy policy. I was an independent consultant from 1996 to 2007.

9
10 I received my Ph.D. degree in Public Policy Analysis from the Wharton School,
11 University of Pennsylvania in 1984. I also have an M.S. degree in Energy
12 Management and Policy from the University of Pennsylvania, and an M.A. degree
13 in Economics from the University of Kansas. I completed my undergraduate
14 study in Business Administration at the National Taiwan University, Taiwan,
15 Republic of China in 1977. I have been a Certified Rate of Return Analyst by the
16 Society of Utility and Regulatory Financial Analysts since 2011.

17

18 ***Q3. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY OR TESTIFIED***
19 ***BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?***

20 ***A3.*** Yes. I have submitted expert testimony or testified on behalf of the OCC before
21 the PUCO in a number of cases. A list of these cases is included in Attachment
22 DJD-1.

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1 ***Q4. HAVE YOU PREVIOUSLY TESTIFIED BEFORE OTHER REGULATORY***
2 ***AGENCIES AND LEGISLATURES?***

3 ***A4.*** Yes. I have testified before the Illinois Commerce Commission in 1987 regarding
4 the proposed divestiture of three nuclear power plants by Commonwealth Edison
5 Company. I also testified before the California State Legislature (specifically, the
6 Senate Committee on Energy and Public Utilities) in 1989 regarding a proposed
7 legislation banning “sweetheart deals” between electric utilities and their non-
8 regulated affiliates (SB 769).

9

10 ***Q5. HAVE YOU PREVIOUSLY PUBLISHED OR PRESENTED IN ACADEMIC***
11 ***JOURNALS, TRADE PUBLICATIONS, AND PROFESSIONAL***
12 ***CONFERENCES?***

13 ***A5.*** Yes. I have published, authored, and presented in numerous academic journals,
14 trade publications, and professional conferences on issues related to public utility
15 regulation, energy policy, and alternative energy. These publications and
16 presentations are listed in Attachment DJD-2.

17

18 **II. PURPOSE AND RECOMMENDATION**

19

20 ***Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?***

21 ***A6.*** The purpose of my testimony is to explain and support a \$42 million refund to
22 customers for overearnings resulting from Ohio Edison’s Electric Security Plan
23 (“ESP”). In many aspects, the 2008 energy law authorizing ESPs favors utilities

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1 and disfavors consumers. The 2008 energy law allows electric utilities to collect
2 excessive earnings from consumers, but protects consumers from *significantly*
3 *excessive* earnings. My recommendations will protect Ohio Edison consumers
4 from paying too high ESP rates that create significantly excessive earnings for the
5 Utility.

6

7 ***Q7. PLEASE SUMMARIZE YOUR RECOMMENDATION?***

8 ***A7.*** Based on my review and analysis of the Application and testimonies filed
9 by Ohio Edison and relevant material, I recommend (as explained fully
10 later in my testimony) that the PUCO find that Ohio Edison had
11 significantly excessive earnings in 2017 and order the Utility to refund
12 approximately \$42 million to its customers.¹

13 :

14 In making this recommendation, I rely upon the following conclusions:

- 15 (1) the so-called Distribution Modernization Rider (“Rider
16 DMR”) Revenue Net of Tax of \$58,518,353² collected by
17 Ohio Edison and recorded as net income (earnings) in 2017
18 should be considered as income for SEET purposes;
19 (2) the 2017 SEET Return on Equity (“ROE”) calculated by
20 Ohio Edison should be revised to 17.39% based on an

¹ See Table 3 in later part of this testimony for the calculation of the refund.

² See Direct Testimony of Jason S. Petrik (May 15, 2018), Schedule JSP-2, Page 1 of 1, Line 3.

*Direct Testimony of Daniel J. Duann, Ph.D.
On Behalf of the Office of the Ohio Consumers' Counsel
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1 OCC-revised SEET Net Income of \$184,838,588³ and an
2 OCC-revised Average Common Equity of \$1,062,702,154⁴;
3 (3) the PUCO should adopt a SEET ROE Threshold of 14.91%
4 proposed by OCC,⁵ instead of the 19.2% ROE threshold
5 proposed by Ohio Edison⁶;
6

7 ***Q8. PLEASE EXPLAIN THE ANNUAL SEET REVIEW IN OHIO***

8 ***A8.*** Traditionally, utilities were provided the opportunity to earn profits at a level
9 determined to be reasonable for the utility to charge and for monopoly customers
10 to pay. Under S.B. 221 (the 2008 energy law), an electric utility is allowed to
11 charge Ohioans for profits in excess of that reasonable level. The 2008 energy
12 law allows utilities to charge consumers for excessive profits, and only protects
13 consumers from paying profits that are described as “significantly excessive.”
14

15 It is my understanding that under the law if it is found that a utility has
16 significantly excessive earnings resulting from its electric security plan, the
17 excess earnings are to be returned to customers.⁷ Furthermore, the annual profit

³ \$184,838,588 = \$126,320,235 + \$58,518,353. See Direct Testimony of Petrik, Schedule JSP-2, Page 1 of 1, Line 5 for the 2017 SEET Net Income of \$126,320,235.

⁴ See Attachment DJD-3, Line 16.

⁵ 14.91% = 10.41% + 4.50% where 10.41% is the 2017 per-book average ROE of 25 publicly-traded companies in a comparable group and the 4.50% is an adder proposed by OCC in setting the SEET ROE threshold.

⁶ See Direct Testimony of Joanne M. Savage (May 15, 2018) at 5.

⁷ See R.C. 4928.143(F). Specifically, (if a utility’s ESP resulted in “significantly excessive earnings,” the PUCO “shall require the electric distribution utility to return to customers the amount of the excess by prospective adjustments”).

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1 review examines the totality (“in the aggregate”) of the earnings of the electric
2 distribution utility related to all the rates, riders, and conditions and terms of
3 service approved in an ESP.⁸ Any refund ordered by the PUCO is a result of the
4 overall significantly excessive earnings of the electric utility.

5

6 **III. CALCULATION OF OHIO EDISON’S 2017 SEET-ADJUSTED NET**
7 **INCOME, AVERAGE COMMON EQUITY, AND RETURN ON EQUITY**

8

9 ***Q9. WHAT IS OHIO EDISON’S 2017 PER-BOOK (OR GENERALLY***
10 ***ACCEPTED ACCOUNTING PRINCIPLES (“GAAP”)) NET INCOME,***
11 ***AVERAGE COMMON EQUITY, AND RETURN ON EQUITY?***

12 ***A9.*** According to the data provided by Ohio Edison, the per-book (“reported” or
13 “GAAP”) net income in 2017 was \$262,924,574⁹ and the per-book average
14 common equity \$1,156,051,263.¹⁰ The 2017 per-book ROE for Ohio Edison, as
15 calculated, was 22.74%.¹¹

⁸ See R.C. 4928.143 (F). Specifically, (With regard to the provisions that are included in an electric security plan under this section, If the PUCO “finds that such adjustments, in the aggregate, did result in significantly excessive earnings”).

⁹ See Direct Testimony Petrik, Schedule JSP-2, Page 1 of 1, Line 1. The term “GAAP” used here refers to the “Generally Accepted Accounting Principles”, which is commonly defined as a collection of commonly-followed accounting rules and standards for financial reporting in the United States.

¹⁰ Id. Schedule JSP-3, Page 1 of 2, Line 1 and Page 2 of 2, Line 61. The average common equity is typically calculated as the average of the 2016 year-end common equity and the 2017 year-end common equity. $\$1,156,051,263 = (\$1,124,183,742 + \$1,187,918,784) / 2$.

¹¹ $22.74\% = \$262,924,574 / \$1,156,051,263$.

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1 ***Q10. WHAT WERE THE ADJUSTMENTS MADE BY OHIO EDISON IN***
2 ***CALCULATING ITS 2017 SEET-ADJUSTED NET INCOME, AVERAGE***
3 ***COMMON EQUITY, AND RETURN ON EQUITY?***

4 ***A10.*** For SEET purposes, the per-book net income and per-book common equity can be
5 and have been adjusted to adequately reflect the net income and common equity
6 resulting from an approved ESP. In its SEET Application, Ohio Edison proposed
7 three adjustments to its per-book net income in calculating its 2017 SEET-
8 adjusted net income. The three proposed adjustments were: the exclusion of
9 Affiliate Company Earnings; the exclusion of Distribution Modernization Rider
10 Revenue Net of Tax; and the exclusion of Special and Extraordinary Items After -
11 Tax.¹² These net income adjustments for SEET purpose were identified and listed
12 by month in Schedule JSP-3 of the Direct Testimony of Jason S. Petrik.

13
14 The three net income adjustments (as reductions) were flowed through the
15 monthly per-book common equity balance to calculate Ohio Edison's monthly
16 SEET-adjusted common equity balances.¹³ The 13-month average of these
17 monthly SEET-adjusted common equity balances was then calculated and used to
18 determine the SEET-adjusted return on equity.

¹² See Direct Testimony of Petrik, Schedule JSP-2, Page 1 of 1.

¹³ See Direct Testimony of Petrik, Schedule JSP-3, Page 1 of 2 and Page 2 of 2.

*Direct Testimony of Daniel J. Duann, Ph.D.
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1 ***Q11. WHAT WERE THE 2017 SEET-ADJUSTED NET INCOME, AVERAGE***
2 ***COMMON EQUITY, AND RETURN ON EQUITY PROPOSED BY OHIO***
3 ***EDISON?***

4 ***A11.*** By making the three net income adjustments identified above, Ohio
5 Edison has calculated and proposed a 2017 SEET-adjusted net income of
6 \$126,320,235 and a 2017 SEET-adjusted average common equity of
7 \$1,072,702,232.¹⁴ Ohio Edison, then, calculated and proposed a 2017
8 SEET-adjusted ROE of 11.8%.

9
10 However, there was an error in Ohio Edison's calculation of the 13-month
11 Average Common Equity. By my own calculation, using the same data
12 shown in Schedule JSP-3, the correct amount of the 13-month Average
13 Common Equity should be \$1,033,641,759.¹⁵ Thus, a corrected SEET
14 ROE, even accepting the same three adjustments proposed by Ohio
15 Edison, would be 12.22%.¹⁶

16
17 My correction here does not mean that I support Ohio Edison's three
18 adjustments after correction, or that I support using this SEET-adjusted
19 ROE of 12.22% to determine if Ohio Edison had significantly excessive

¹⁴ See Direct Testimony of Petrik, Schedule JSP-1, Page 1 of 1.

¹⁵ See Attachment DJD-3, Line 16.

¹⁶ 12.22% = \$126,320,235 / \$1,033,641,759.

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1 earnings in 2017. I am merely pointing out an error in the Ohio Edison
2 calculation and correcting the calculations for that error.

3

4 ***Q12. DO YOU AGREE WITH THE THREE NET INCOME ADJUSTMENTS***
5 ***PROPOSED BY OHIO EDISON?***

6 ***A12.*** No. I do not agree with Ohio Edison's proposed exclusion of Rider DMR
7 Revenue Net of Tax, of approximately \$58.5 million, from its per-book net
8 income for SEET purpose. If this exclusion of Rider DMR Revenue Net of Tax is
9 adopted, the protection of utility customers from paying unreasonable and
10 excessive ESP rates, as intended by the General Assembly in enacting the annual
11 SEET review, will be lost or significantly diluted.

12

13 ***Q13. PLEASE EXPLAIN.***

14 ***A13.*** The so-called Distribution Modernization Rider is a provision of Ohio Edison's
15 current ESP as approved by the PUCO. Under this rider, the Utility does not have
16 to spend even one penny on distribution. Instead the Rider DMR revenues
17 provide credit support for FirstEnergy Corp. OCC and others have appealed the
18 PUCO's approval of this charge to the Ohio Supreme Court. This Rider DMR
19 revenue was collected by Ohio Edison from its customers in 2017 and has been
20 authorized for at least two more years after 2017, with the potential for Ohio
21 Edison to collect more in years four and five (2020 and 2021).

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1 The Rider DMR revenue was recorded and recognized as net income by Ohio
2 Edison in its 2017 financial statements. The collection of Rider DMR revenue
3 was not a one-time or extraordinary event in 2017. It is real cash collected by
4 Ohio Edison resulting directly from its electric security plan approved by the
5 PUCO in Case No. 14-1297-EL-SSO. Based on my understanding of the SEET
6 legislation and my experience as a regulatory economist, I do not see a valid
7 reason not to consider this Rider DMR revenue of \$58.5 million as part of Ohio
8 Edison's 2017 net income for purposes of reviewing the profits of the Utility.

9
10 Specifically, if Rider DMR Revenues are excluded, then Ohio Edison's 2017
11 SEET-adjusted net income would be unreasonably and artificially reduced from
12 approximately \$184.8 million to \$126.3 million. The resulting 2017 SEET ROE
13 would also be unreasonably reduced from 17.39% to 11.80% (or 12.22% as I have
14 corrected above). This would mean that any potential refund to customers would
15 be gone.

16
17 ***Q14. WHAT IS YOUR UNDERSTANDING OF THE PUCO'S DECISION***
18 ***REGARDING RIDER DMR REVENUE COLLECTION IN ITS ESP ORDER?***

19 ***A14.*** I am aware that the PUCO, in approving the current ESP, did allow Ohio Edison
20 to exclude Rider DMR revenues from earnings for SEET purposes. But the SEET
21 test is an important consumer protection. It is meant to ensure the public that the
22 ESPs are not setting electricity rates that are too high. The PUCO ruling thwarts a
23 complete review of the utility's earnings under an ESP. It segregates out one

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1 portion of the Utility's ESP (the Rider DMR) and treats it differently from all
2 other revenues collected under the utility's ESP. The PUCO has by its ruling
3 deprived customers of refunds they may be otherwise entitled to under the law.
4 This case shows the injustice of the PUCO's ruling in Ohio Edison's ESP
5 decision.

6
7 I was advised by counsel that OCC has appealed this issue, among other things,
8 to the Supreme Court of Ohio. It is also my understanding, as an experienced
9 regulatory economist, that the PUCO can modify a prior order provided that the
10 PUCO explains the reasons for the modification and that the new regulatory
11 course is permissible.¹⁷

12
13 ***Q15. WHAT WOULD BE OHIO EDISON'S 2017 SEET-ADJUSTED NET***
14 ***INCOME, AVERAGE COMMON EQUITY, AND RETURN ON EQUITY IF***
15 ***RIDER DMR REVENUE NET OF TAX WERE NOT EXCLUDED FOR SEET***
16 ***PURPOSE?***

17 ***A15.*** Ohio Edison collected \$58,518,353 net of tax through Rider DMR from its
18 customers in 2017. If this Rider DMR revenue net of tax were not
19 excluded from net income for SEET purpose, this amount of \$58,518,353
20 would be added back to Ohio Edison's proposed 2017 SEET Net Income

¹⁷ See Third Entry on Rehearing, PUCO Case 16-395-EL-SSO et al., (September 19, 2018) at 23.

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of \$126,320,235. The OCC-revised 2017 SEET Net Income for Ohio

Edison would be \$184,838,588.¹⁸

Similarly, by removing the flow through (i.e. reduction) of the monthly collection of DMR revenue net of tax from the monthly balance of SEET-adjusted common equity, the SEET-adjusted 13-month Average Common Equity of Ohio Edison would be revised upward to \$1,062,702,154.¹⁹

Based on the OCC-revised SEET Net Income and SEET Average Common Equity, the OCC-revised 2017 SEET ROE for Ohio Edison would be 17.39%.²⁰ The calculation of the different ROEs is summarized in Table 1.

Table 1
Calculation of 2017 SEET-Adjusted ROEs.

	Net Income	Average Common Equity	Return on Equity
2017 Per-Book	\$262,924,574	\$1,156,051,263	22.74%
2017 SEET-Adjusted (by Ohio Edison)	\$126,320,235	\$1,072,702,232	11.80%
Corrected 2017 SEET-Adjusted (by Ohio Edison)	\$126,320,235	\$1,033,641,759	12.22%
Addition to Net Income for Not Excluding Rider DMR Revenues Net of Tax	\$58,518,353	n. a.	n. a.
2017 SEET-Adjusted (by OCC)	\$184,838,588	\$1,062,702,154	17.39%

¹⁸ \$184,838,588 = \$126,320,235 + \$58,518,353.

¹⁹ See Attachment DJD-3, Line 16.

²⁰ 17.39% = \$184,838,588 / \$1,062,702,154.

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1 **IV. RECOMMENDATION ON OHIO EDISON'S 2017 SEET RETURN ON**
2 **EQUITY THRESHOLD**

3
4 ***Q16. WHAT IS THE PURPOSE OF A SEET RETURN ON EQUITY ("ROE")***
5 ***THRESHOLD?***

6 ***A16.*** A SEET ROE threshold is the benchmark used by the PUCO in
7 determining if an electric utility, such as Ohio Edison, has significantly
8 excessive earnings in comparison to other publicly-traded companies with
9 similar business and financial risk. If an electric utility, operated under an
10 approved ESP, has a SEET-adjusted ROE that is higher than the SEET
11 ROE threshold, the electric utility is considered to have significantly
12 excessive earnings in that year. That electric utility would be required to
13 refund the amount of earnings above the SEET ROE threshold (grossed up
14 to revenue collection) to its customers.

15
16 ***Q17. WHAT HAVE BEEN THE METHODS USED BY THE PUCO IN SETTING***
17 ***THE SEET ROE THRESHOLD?***

18 ***A17.*** The Ohio Revised Code does not specify a specific level of ROE as the
19 SEET ROE threshold. The Ohio Revised Code does not prescribe one
20 specific method or several methods in deciding the SEET ROE threshold,
21 either. It is up to the PUCO to set the SEET ROE threshold for an electric
22 utility through the annual SEET review or the ESP proceeding.

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1 In order to implement the annual SEET review as required under the Ohio
2 Revised Code, the PUCO in 2010 has developed a general framework and
3 certain parameters regarding the requirements of the SEET Applications
4 (including the SEET ROE Threshold) to be filed by Ohio electric utilities
5 operating under an ESP.²¹ But even with a general framework in place,
6 the PUCO has adopted a variety of different approaches or methods in
7 setting the SEET ROE thresholds in different SEET proceedings in the
8 past.

9
10 For a majority of the SEET cases, the PUCO may simply choose or accept
11 a specific level of ROE (such as 12% or 15%) as the SEET ROE
12 thresholds when approving the ESP. In other cases, the SEET ROE
13 thresholds were decided by the PUCO on a case-by-case basis through the
14 annual SEET applications. Typically, the PUCO would first determine the
15 average ROE earned by a comparable group of companies. Then, the
16 PUCO would select an “allowance” or “addor” to be added to the average
17 ROE in deciding the SEET ROE threshold.

18
19 The PUCO has generally applied three different approaches in deciding
20 the “allowance” or the “addor” to the average ROE in deciding the annual
21 SEET ROE Threshold. The ROE “addor” could be: (1) a specific number

²¹ See PUCO Case No. 09-786-EL-UNC, Finding and Order (June 30, 2010).

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1 such as the 200 basis points “addor” used in deciding the “Safe Harbor”
2 ROE level²²; (2) a specific percentage of the average ROE used in setting
3 up the SEET ROE Threshold²³; or (3) a statistics-based approach in
4 selecting an “addor” as the product of a multiplier times the standard
5 deviation of the ROEs earned by companies in the comparable group²⁴.

6 The PUCO has not determined in prior SEET proceedings that any one of
7 the three approaches was preferred in deciding the SEET ROE Threshold.
8

9 ***Q18. WHAT WERE THE TYPICAL SEET ROE THRESHOLDS ADOPTED BY***
10 ***THE PUCO IN THE PAST?***

11 ***A18.*** Based on my understanding of the implementation of the ESPs and the
12 annual SEET reviews for Ohio’s major electric utilities, a large majority of
13 the SEET ROE thresholds adopted by the PUCO were within the range of
14 12% to 15%. For a smaller number of electric utilities, the SEET ROE
15 thresholds were in the range of 15% to 17%.

²² See PUCO Case No. 09-786-EL-UNC, Finding and Order at 29.

²³ See PUCO Case No. 10-1261-EL-UNC, Opinion and Order (January 11, 2011) at 27.

²⁴ See PUCO Case No. 11-4571-EL-UNC, Opinion and Order (October 23, 2013) at 27.

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1 ***Q19. WHAT IS OHIO EDISON'S PROPOSED 2017 SEET RETURN ON EQUITY***
2 ***THRESHOLD?***

3 ***A19.*** Ohio Edison proposed a SEET ROE Threshold of 19.2% in this proceeding.²⁵

4 This proposed ROE threshold is based on the adjusted (non-GAAP) net incomes
5 (or "Net Profit") of comparable companies and the resulting average earned ROE
6 of 12.3%, a standard deviation of 4.2% of the ROEs, and a multiplier of 1.64
7 (derived from a one-sided confidential level of 95%) applicable to the standard
8 deviation of the ROEs. The comparable companies selected by Ohio Edison are
9 26 publicly-traded companies included in the SPDR Select Sector Fund – Utility
10 ("XLU")²⁶. Two companies in the XLU, NRG (NRG Energy, Inc.) and AES
11 (The AES Corporation), are excluded in Ohio Edison's analysis due to their non-
12 recurring large impairment losses in 2017.²⁷

13
14 It should be noted that the "Net Profit" used by Ohio Edison in calculating the
15 average return on equity was not the per-book net income based on generally
16 accepted accounting principles and standards. The "Net Profit" of all the 26
17 comparable companies were adjusted net incomes generated from Value Line
18 Investment Analyzer.²⁸

²⁵ See Direct Testimony of Joanne M. Savage (May 15, 2018) at 5.

²⁶ SPDR is a short form name for a Standard & Poor's depositary receipt. It is an exchange-traded fund managed by State Street Global Advisors that tracks the performance of the Standard & Poor's 500 Index (S&P 500).

²⁷ See Direct Testimony of Savage at Schedule JMS-1, Page 1 of 1.

²⁸ Id.

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**Q20. IS THIS SEET ROE THRESHOLD OF 19.2% REASONABLE IN
DETERMINING IF OHIO EDISON HAD SIGNIFICANTLY EXCESSIVE
EARNINGS IN 2017?**

A20. No. This 19.2% SEET ROE threshold proposed by Ohio Edison is unreasonable. The PUCO should not adopt this ROE threshold to determine if Ohio Edison had significantly excessive earnings in 2017.

First, this 19.20% ROE threshold itself is exceedingly high and will not provide meaningful protection for utility customers from paying unreasonably high ESP rates. Second, the 12.3% average ROE used by Ohio Edison in deriving the 19.2% SEET ROE Threshold is overstated and unreasonable. Third, the statistics-based approach used by Ohio Edison tends to produce volatile and unreliable standard deviation of ROEs and consequently a SEET ROE threshold for the same electric utility. In response, I will propose and explain later in my testimony a reasonable SEET ROE Threshold of 14.91% to be used in determining if Ohio Edison had significantly excessive earnings in 2017.

**Q21. PLEASE EXPLAIN WHY THE PROPOSED SEET ROE THRESHOLD OF
19.20% ITSELF IS EXCEEDINGLY HIGH AND UNREASONABLE?**

A21. This proposed SEET ROE Threshold of 19.20% itself is exceedingly high in many respects. First, the PUCO has not adopted any SEET ROE thresholds similar to such a high level of ROE. Second, only a few Ohio electric utilities have proposed such a high level of ROE in certain years in prior SEET

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1 applications and they have been rejected by the PUCO. Typically, the SEET
2 ROE thresholds proposed by the electric utilities were lower than the 19.20%
3 proposed by Ohio Edison. For example, in its 2016 SEET Application, Ohio
4 Edison proposed a SEET ROE Threshold of 14.80% that was based on an average
5 ROE of 10.20% with a standard deviation of 2.80% from the ROEs of the
6 comparable group of companies.²⁹ Thirdly, the PUCO Staff has not proposed any
7 SEET ROE Threshold comparable to 19.20% in the past. For example, for the
8 period of 2012 to 2015, the PUCO Staff proposed SEET ROE Thresholds
9 generally in the range of 14% to 15.50% for Ohio Power.

10

11 A comparison of the proposed SEET ROE Threshold with other ROE indicators
12 would also show this 19.20 ROE Threshold is simply too high to be reasonable.
13 For example, this SEET ROE Threshold of 19.20% is approximately 83% higher
14 than Ohio Edison's currently authorized return on equity of 10.50% that was set
15 in its most recent rate case ten year ago. The PUCO has explicitly indicated this
16 authorized rate of return was one additional factor that should be considered in
17 deciding if the utility had significantly excessive earnings in a given year.³⁰

18

19 This proposed 19.20% SEET ROE Threshold would be even much higher
20 (approximately 103.6% higher) in comparison to the average ROE of 9.43% for

²⁹ See PUCO Case No. 17-0993-EL-UNC, Direct Testimony of Joanne M. Savage, Schedule JMS-1, page 1 of 1.

³⁰ See PUCO Case No. 09-786-EL-UNC, Finding and Order at 29.

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1 distribution-only electric utilities authorized nationwide in 2017.³¹ This proposed
2 SEET ROE Threshold of 19.20% is also approximately 84.4% higher than the
3 2017 weighted average per-book ROE (10.41%), as calculated by OCC, of the
4 comparable group of 25 companies (excluding AES, NRG, and FirstEnergy
5 Corporation that had significant write-offs or non-GAAP gains in 2017).
6

7 If such a high SEET ROE Threshold were adopted, the possibility of finding an
8 electric utility earning a ROE higher than the SEET threshold ROE would be
9 greatly diminished. The customers of the electric utility would be less likely to
10 receive a refund or a credit for paying the very high rates under an approved ESP.
11 In other words, the intended protection for customers associated with the annual
12 SEET review will be reduced or eliminated.
13

14 ***Q22. PLEASE EXPLAIN WHY THE AVERAGE ROE OF 12.30% USED BY OHIO***
15 ***EDISON IN DEVELOPING ITS SEET ROE THRESHOLD IS***
16 ***OVERSTATED AND UNREASONABLE?***

17 ***A22.*** As discussed earlier, the 12.3% average ROE used by Ohio Edison in developing
18 the SEET ROE Threshold of 19.20% was not based on the per-book (GAPP) net
19 incomes of the comparable companies. Ohio Edison has included various
20 adjustments (by using the Value Line Investment Analyzer) to the per-book net
21 income in deriving the “Net Profit” figures. From the testimony and discovery

³¹ See RRA Regulatory Focus: Major Rate Case Decisions 2017 (January 30, 2018) at 7.

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1 responses provided by Ohio Edison, it was not clear what these adjustments
2 consisted or if these adjustments were reasonable or justified.

3
4 In addition to using adjusted net incomes, Ohio Edison also excluded two
5 companies (the AES Corporation and NRG Energy) with substantial losses due to
6 impairment charges in 2017 from the comparable group (SPDR Select Sector
7 Fund – Utility) in calculating the average ROE of 12.30%. There are certain
8 advantages and disadvantages in using the adjusted net income figures and the
9 removal of companies with substantial write-offs or other restructuring activities.
10 In some circumstances, these adjustments and removal of certain companies may
11 not be unreasonable. But my review and analysis indicated that the 12.3%
12 average ROE proposed by Ohio Edison was indeed overstated and thus
13 unreasonable to use in determining if Ohio Edison had significantly excessive
14 earnings in 2017.

15
16 In evaluating the average ROE of 12.3% proposed by Ohio Edison, I have
17 reviewed additional financial information of the 26 companies selected by Ohio
18 Edison in its calculation. The additional information I reviewed was primarily the
19 2017 GAAP (per-book) net income and the adjusted (Non-GAAP) net income
20 used by Ohio Power (another electric utility that is also required to file a 2017
21 SEET Application). The financial data of the 28 comparable companies, as
22 compiled by Ohio Power, is included here as Attachment DJD-4. Based on this

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1 additional financial information, I have updated the financial summary data of the
2 26 companies selected by Ohio Edison. It is shown in Attachment DJD-5.

3
4 The first problem I identified regarding the 12.30% Average ROE proposed by
5 Ohio Edison was that the total Net Profit (or adjusted net income) of those 26
6 comparable companies would be approximately \$8.343 billion (or 26%) higher
7 than the total per-book (or GAAP) net income. Ohio Edison's total Net Profit
8 was also approximately \$4.481 billion higher than the total adjusted net income
9 calculated by Ohio Power. Because Ohio Edison was using an inflated figure of
10 net income, it was no surprise that Ohio Edison's calculation would result in an
11 average ROE of 12.26% (which was rounded-up to 12.30% by Ohio Edison)
12 while the per-book average ROE was 9.72% for the same group of companies and
13 10.90% for the same group of companies using Ohio Power's adjusted net income
14 data.

15
16 A second problem with Ohio Edison's average ROE calculation was the use of
17 the per-book (GAAP) average common equity in combination with the non-
18 GAAP net income. Because the adjusted (Non-GAAP) net income used by Ohio
19 Edison was significantly higher than the per-book income, the average common
20 equity used by Ohio Edison should also be adjusted upward to reflect the
21 expected year-end increase in common equity. Ohio Edison has not made this
22 required adjustment in average common equity. In other words, the numerator
23 (Net Profit) of Ohio Edison's average ROE calculation has been adjusted upward

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1 while the denominator (Average Common Equity) has not been adjusted upward
2 accordingly. The end result is an overstated average ROE of 12.30%.

3
4 The third problem with Ohio Edison's average ROE calculation is the inclusion of
5 the FirstEnergy Corporation in the comparable group of companies. In
6 calculating the average ROE, FirstEnergy should be removed from the
7 comparable companies because of the occurrence of a non-GAAP adjustment of
8 approximately \$2.879 billion in 2017.³² The inclusion of such a large amount of
9 non-GAAP net income adjustment in calculating the average ROE of the
10 comparable group will result in an overstated ROE. The financial summary of the
11 25 comparable companies (after the removal of FirstEnergy, AES and NRG) as
12 proposed by OCC is shown in Attachment DJD-6.

13
14 In conclusion, due to the much higher adjusted net income figures used by Ohio
15 Edison, the resulting average ROE of 12.26% (rounded-up to 12.3%) proposed by
16 Ohio Edison) in this proceeding is unreliable and unreasonable. The use of this
17 average ROE proposed by Ohio Edison would unreasonably increase the SEET
18 ROE Threshold. Doing so would allow Ohio Edison to keep its significantly
19 excessive earnings and not providing a refund to its customers.

³² In 2017, FirstEnergy Corporation has a per-book loss of \$1,724 million and an adjusted net income of \$1,155 million according to the calculation by Ohio Edison. $\$2,879 \text{ million} = \$1,724 \text{ million} + \$1,155 \text{ million}$.

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1 ***Q23. PLEASE EXPLAIN WHY THE STATISTICS-BASED APPROACH OR***
2 ***METHOD USED BY OHIO EDISON IN THIS PROCEEDING IS***
3 ***UNREASONABLE AND SHOULD NOT BE USED IN SETTING THE SEET***
4 ***ROE THRESHOLD.***

5 ***A23.*** The statistics-based approach of using the average ROE, the standard deviation of
6 ROEs, and a multiplier to develop the SEET ROE Threshold has been proposed
7 by the PUCO Staff and certain electric utilities in recent years. The PUCO has
8 also considered and adopted the results of this statistics-based method regarding
9 the SEET ROE thresholds in the past. But it has become increasingly clear that
10 this statistics-based approach would lead to volatile and unreasonable results in
11 the annual SEET review.

12
13 As discussed earlier, using essentially the same statistics-based approach of
14 developing the SEET ROE Threshold, Ohio Edison proposed a SEET ROE
15 Threshold of 14.80% for its 2016 SEET review³³ and a SEET ROE of 19.20% for
16 its 2017 SEET review. It is not likely that the business and financial conditions
17 facing Ohio Edison and the comparable group of companies would change so
18 drastically within one year to justify this sudden and significant increase in the
19 SEET ROE thresholds from 14.80% in 2016 to 19.20% in 2017.

³³ See PUCO Case 17-0993-EL-UNC, Direct Testimony of Joanne M. Savage (May 15, 2017) at 5.

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The primary factor contributing to the volatility of the SEET ROE threshold from one year to another year or within the same year is the high volatility of the standard deviation of ROEs associated with the comparable companies. The extremely large volatility of the standard deviations of the ROEs was influenced by the net income figure selected (per-book or adjusted net income) and the exclusion or inclusion of one or a few companies with very large write-offs or adjustments in a particular year. The drastic variation of the standard deviations of the ROEs of the comparable companies in 2017 is shown in Table 2.

Table 2

Standard Deviations of ROEs for the 2017 Comparable Companies

	No Exclusion of Comparable Companies	Exclusion of Two Companies(AES and NRG)	Exclusion of Three Companies (AES, NRG, and FirstEnergy)
SD based on Per-book Net Income	50.72%	11.84%	8.35%
SD based on Adjusted Net Income (Ohio Edison)	n.a.	4.15%	3.64%
SD based on Adjusted Net Income (Ohio Power)	12.42%	2.89%	2.50%

There is no easy answer in controlling or reducing the high volatility of the standard deviation of the ROEs. Two approaches have been attempted and they turned out to be largely unsuccessful in controlling the volatility of the standard

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1 deviation. These approaches include the use of adjusted (Non-GAAP) net income
2 and the removal of certain comparable companies with significant amounts of
3 write-offs or non-GAAP gains. I believe the most reasonable approach at this
4 time is to choose an alternative to the statistics-based method in setting the SEET
5 ROE Threshold.

6

7 ***Q24. WHAT IS YOUR PROPOSED 2017 SEET ROE THRESHOLD FOR OHIO***
8 ***EDISON?***

9 ***A24.*** In this proceeding, I propose an SEET ROE Threshold of 14.91% to be
10 adopted in determining if Ohio Edison has significantly excessive earnings
11 in 2017. In other words, if Ohio Edison's earnings are above 14.91 %,
12 they should be considered as significantly excessive, and earnings (profits)
13 over this amount should be refunded to customers . This 14.91% ROE
14 threshold is based on the OCC-calculated 2017 average per-book ROE of
15 10.41% of the 25 publicly-traded companies (excluding AES, NRG, and
16 FirstEnergy) and a ROE "addor" of 450 basis point (4.50%) proposed by
17 OCC. I believe this proposed ROE Threshold is reasonable and fair, and
18 the PUCO should adopt this SEET ROE Threshold of 14.91%.

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1 ***Q25. PLEASE EXPLAIN YOUR SELECTION OF THE AVERAGE PER-BOOK***
2 ***ROE OF 10.41% IN RECOMMENDING THE 2017 SEET ROE***
3 ***THRESHOLD FOR OHIO EDISON?***

4 ***A25.*** The first question in calculating the average ROE is the selection of the
5 comparable companies. There are at least three companies (FirstEnergy
6 Corporation, AES Corporation, and NRG Energy) in the comparable group with
7 substantial write-offs or Non-GAAP gains in the comparable group such that they
8 should be removed in calculating the average ROE. Some fluctuations in the net
9 incomes and common equity of individual companies in a particular year can be
10 expected. But it is clear to me that the 2017 per-book or adjusted net incomes of
11 these three companies did not adequately reflect the results of the normal
12 operation of those companies in the comparable group. More importantly, given
13 the very large amounts of write-offs, non-GAAP gains, and possibly other
14 accounting adjustments, the inclusion of these three companies would
15 significantly distort the average ROE of the comparable group.

16
17 The next question is if the calculation of an average ROE should be based on per-
18 book (GAAP) net income or Non-GAAP net income. It turned out that, once the
19 three companies (AES, NRG, and FirstEnergy) are removed from the comparable
20 group of companies, the difference between these two net income measurements
21 might not be that significant. For my comparable group of 25 companies, the
22 average per-book ROE was 10.41% and the average adjusted-income ROE (using

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1 Ohio Power's data) was 10.77%.³⁴ The detailed analysis is shown in Attachment
2 DJD-6.

3
4 Consequently, for transparency and consistency purpose, I recommend the use of
5 an average ROE of 10.41% based on the per-book (GAAP) net income data of the
6 25 comparable companies. The use of the per-book net income data may result in
7 a higher standard deviation of ROEs than the case of using the adjusted income
8 data. But this is not a concern now because I do not propose the use of a
9 statistics-based method (the one using a standard deviation of ROEs and a
10 multiplier to derive an "add" to the average ROE) in developing the SEET ROE
11 Threshold.

12
13 ***Q26. PLEASE EXPLAIN YOUR SELECTION OF THE 450 BASIS POINTS***
14 ***"ALLOWANCE" OR "ADDER" IN RECOMMENDING THE 2017 SEET***
15 ***ROE THRESHOLD FOR OHIO EDISON?***

16 ***A26.*** As discussed earlier, it is increasingly clear that a statistics-based method would
17 lead to volatile and unreasonable results in setting the SEET ROE Threshold.
18 There should be an alternative in developing the "allowance" or "add" to be
19 added to the average ROE in developing a reasonable SEET ROE Threshold. For
20 consistency and simplicity, I recommend the use of a numeric "add" or
21 "allowance".

³⁴ See Attachment DJD-6.

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1 I believe an “adder” of 400 basis points to 500 basis points to the average ROE is
2 reasonable. This recommendation is based in part on the PUCO’s prior decision
3 on the “adder” of 200 basis points for the Safe Harbor ROE. By doubling the
4 magnitude of the “adder” used for setting the Safe Harbor ROE (considered as a
5 “backstop” for the SEET ROE test), the resulting SEET ROE threshold would
6 provide a sufficient and fair “headroom” for Ohio’s electric utilities to increase
7 their net income without being found to be “significantly excessive”). At the
8 same time, this proposed “adder” of 400 to 500 basis points will still adequately
9 protect utility customers from paying unreasonably high ESP rates.

10
11 My recommendation here is also a recognition that this proposed “adder” of 450
12 basis points (the midpoint of the range of 400 to 500 basis points) is likely to
13 result in a SEET ROE Threshold in the range of 12% to 15% (depending on the
14 average ROEs in a particular year), which is similar to that adopted by the PUCO
15 in the past. In conclusion, I recommend an “adder” of 450 basis points to the
16 average per-book ROE of 10.41% of the comparable companies in setting the
17 SEET ROE Threshold applicable to the 2017 SEET review of Ohio Edison.

*Direct Testimony of Daniel J. Duann, Ph.D.
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 18-0857-EL-UNC*

V. PROPOSED REFUND TO OHIO EDISON'S CUSTOMERS

***Q27. DID OHIO EDISON HAVE SIGNIFICANTLY EXCESSIVE EARNINGS AS
A RESULT OF THE ELECTRIC SECURITY PLAN RATES PAID BY
CUSTOMERS IN 2017?***

A27. Yes. Ohio Edison did have significantly excessive earnings in 2017 because it had a SEET-adjusted ROE of 17.39%, which exceeded the OCC-proposed SEET ROE Threshold of 14.91%. Furthermore, this SEET-adjusted ROE of 17.39% is approximately 66% higher than Ohio Edison's currently authorized ROE of 10.50%. Similarly, this SEET-adjusted ROE of 17.39% is approximately 67% higher than the 2017 weighted average per-book ROE (10.41%) I have calculated for a comparable group of 25 companies without significant restructuring activities and write-offs in 2017.

***Q28. HOW MUCH MONEY SHOULD BE RETURNED TO OHIO EDISON'S
CUSTOMERS BASED ON THE SIGNIFICANTLY EXCESSIVE EARNINGS
MADE BY OHIO EDISON IN 2017?***

A28. My calculation indicates that Ohio Edison should refund its customers approximately \$42 million for its significantly excessive earnings in 2017. As discussed earlier, if OCC's proposal of including the Rider DMR Revenue Net of Tax is adopted, Ohio Edison would have a SEET-adjusted net income of \$184,838,588 and an average SEET-adjusted common equity of \$1,062,702,154 in 2017. The allowed earnings for Ohio Edison at the OCC-proposed SEET ROE

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1 Threshold of 14.91% would be \$158,448,891.³⁵ A comparison of Ohio Edison's
2 SEET-adjusted net income with the allowed earnings indicates that Ohio Edison
3 would have excessive earnings of \$26,389,697 in 2017.³⁶ The pre-tax revenue
4 collection that should be returned to customers, using a gross-up factor of
5 1.5939732 approved in the last rate case, would be \$42,064,470.³⁷ This is the
6 amount of money that should be returned to customers through either a refund or
7 a credit on their bills. The calculation of the refund to customers is summarized
8 in Table 3.

Table 3

Calculation of Refund to Ohio Edison's Customers

SEET-adjusted Net Income	(1)	\$184,838,588
SEET-adjusted Average Equity	(2)	\$1,062,702,154
SEET ROE Threshold	(3)	14.91%
Allowed Net Income at ROE Threshold	(4) = (2) * (3)	\$158,448,891
Excessive Net Income	(5) = (1) – (4)	\$26,389,697
Tax Gross-up Factor	(6)	1.5939732
Pre-tax Revenue To Be Refunded to Customers	(7) = (5) * (6)	\$42,064,470

³⁵ \$158,448,891 = \$1,062,702,154 * 0.1491.

³⁶ \$26,389,697 = \$184,838,588 – \$158,448,891.

³⁷ \$42,064,470 = \$26,389,697 * 1.5939732.

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1 ***Q29. IS THIS PROPOSED REFUND OF \$42 MILLION TO OHIO EDISON'S***
2 ***CUSTOMERS A REDUCTION IN THE AMOUNT OF RIDER DMR***
3 ***REVENUE COLLECTION AUTHORIZED UNDER THE ESP?***

4 ***A29.*** No. This proposed refund of \$42 million to customers from the 2017 SEET
5 review has nothing to do with a reduction of the collection of Rider DMR
6 revenue. As discussed earlier, any refund to customers resulting from the 2017
7 SEET review is the result from an overall level of significantly excessive earnings
8 by Ohio Edison in 2017 under an approved ESP. The annual SEET review does
9 not examine the earnings of any individual provision (such as Rider DMR) of an
10 ESP. The SEET refund to customers is a return of money collected for the overall
11 excessive earnings, not the return of excessive earnings associated with any
12 individual rate or rider. There is no such thing as a refund of earnings specifically
13 from Rider DMR revenue.

14

15 ***Q30. DOES THIS CONCLUDE YOUR TESTIMONY?***

16 ***A30.*** Yes. But I reserve the right to supplement my testimony in the event that
17 additional testimony is filed, or if new information or data in connection with this
18 proceeding becomes available.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Direct Testimony of Daniel J. Duann, Ph.D. on Behalf of the Office of the Ohio Consumers' Counsel* was served via electronic transmission to the persons listed below on this 16th day of October 2018.

/s/ William J. Michael
William J. Michael
Assistant Consumers' Counsel

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Daniel J. Duann, Ph.D.
List of Testimonies Filed Before PUCO

1. *Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan*, Case No. 08-1094-EL-SSO (January 26, 2009).
2. *Application of Ohio American Water Company to Increase Its Rates for Water and Sewer Service Provided to Its Entire Service Area*, Case No. 09-391-WS-AIR (January 4, 2010).
3. *Application of Aqua Ohio, Inc. for Authority to Increase its Rates and Charges in its Masury Division*, Case No. 09-560-WW-AIR (February 22, 2010).
4. *Application of Aqua Ohio, Inc. for Authority to increase its Rates and Charges in its Lake Erie Division*, Case No. 09-1044-WW-AIR (June 21, 2010).
5. *In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power Company and AEP Company*, Case Nos. 09-872-EL-FAC and 09-873-EL-FAC (August 16, 2010).
6. *In the Matter of the Application of Columbus Southern Power Company for Approval of an Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Asset (Remand)*, Case Nos. 08-917-EL-SSO et al (June 30, 2011).
7. *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Modify and further Accelerate its Pipeline Infrastructure Replacement Program and to Recover the Associated Costs et al.*, Case Nos. 11-2401-GA-ALT and 08-169-GA-ALT (July 15, 2011).
8. *In the Matter of the Application of Columbus Southern Power Company and AEP Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Ohio Rev. Code in the Form of an Electric Security Plan (ESP)*, Case Nos. 11-346-EL-SSO, et al (July 25, 2011).
9. *In the Matter of the Application of Columbus Southern Power Company and AEP Company for Authority to Merge and Related Approval (ESP Stipulation)*, Case Nos. 10-2376-EL-UNC, et al (September 27, 2011).
10. *In the Matter of the 2010 Annual Filing of Columbus Southern Power Company and AEP Company Required by Rule 4901:1-35-10, Ohio Administrative Code*, Case Nos. 11-4571-EL-UNC and 11-4572-EL-UNC (October 12, 2011).
11. *In the Matter of the Application of Ohio American Water Company to Increase Its Rates for Water and Sewer Service Provided to Its Entire Service Area*, Case No. 11-4161-WS-AIR (March 1, 2012).

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12. *In the Matter of the Application of Columbus Southern Power Company and AEP Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Ohio Rev. Code in the Form of an Electric Security Plan (Modified ESP), Case Nos. 11-346-EL-SSO, et al (May 4, 2012).*
13. *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. 12-1230-EL-SSO (May 21, 2012).*
14. *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates, et al. Case Nos. 12-1682-EL-AIR (February 19, 2013).*
15. *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Gas Rates, Case Nos. 12-1685-GA-AIR, et al (February 25, 2013).*
16. *In the Matter of the Application of Dayton Power & Light Company for Authority to Establish a Standard Service Offer in the Form Of an Electric Security Plan Pursuant to R.C. 4928.143, Case No. 12-426-EL-SSO et al. (March 1, 2013).*
17. *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover of Certain Storm-related Service Restoration Costs, Case Nos. 12-3062-EL-RDR, et al. (January 31, 2014).*
18. *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover of Certain Storm-related Service Restoration Costs, Case Nos. 12-3062-EL-RDR, et al. (May 23, 2014).*
19. *In the Matter of the Application of Aqua Ohio, Inc. to Increase Its Rates and Charges for Its Waterworks Service, Case No. 13-2124-WW-AIR (August 4, 2014).*
20. *In the Matter of the Application Seeking Approval of AEP Company's Proposal to Enter into an Affiliate Power Purchase Agreement for Inclusion in the Power Purchase Agreement Ride, Case No. 14-1693-EL-RDR, et al. (September 11, 2015).*
21. *In the matter of the Application of Duke Energy Ohio, Inc. for Approval of an Alternative Rate Plan Pursuant to R.C. 4929.05, Revised Code, for an Accelerated Service Line Replacement Program, Case No. 14-1622-GA-ALT (November 6, 2015).*
22. *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. 4928.141 in the Form of an Electric Security Plan, Case No. 14-1297-EL-SSO (June 22, 2016).*

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23. *In the Matter of the Application of Ohio Power Company for Administration of the Significantly Excessive Earnings Test for 2014 under Section 4928.143 (F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code, Case No. 16-1105-EL-UNC (August 15, 2016).*
24. *In the Matter of the Application of Ohio Power Company for Administration of the Significantly Excessive Earnings Test for 2014 under Section 4928.143 (F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code, Case No. 16-1105-EL-UNC (September 19, 2016).*
25. *In the Matter of the Application of Aqua Ohio, Inc. for Authority to Increase Its Rates and Charges for Its Waterworks Service. Case No. 16-0997-WW-AIR (December 19, 2016).*
26. *In the Matter of the Application of Ohio Power Company for Administration of the Significantly Excessive Earnings Test for 2016 Under Section 4928.143(F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code, Case No. 17-1230-EL-UNC (January 12, 2018).*
27. *In the Matter of the Annual Application of Duke Energy Ohio, Inc., for an Adjustment to Rider AMRP Rates. Case No. 17-2318-GA-AIR (April 5, 2018).*
28. *In the Matter of the Application of the Dayton Power and Light Company for an Increase in Electric Distribution Rates. Case No. 15-1380-EL-AIR (April 11, 2018).*
29. *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Distribution Rates. Case No. 17-0032-EL-AIR et al., (June 25, 2018).*

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Selected Publications of Daniel J. Duann, Ph.D.

Journal Articles

Regulation: The Cato Review of Business & Government, "Turning up the Heat in the Natural Gas Industry," Vol. 19, 1996, (with Kenneth W. Costello).

Managerial and Decision Economics, "Designing a Preferred Bidding Procedure for Securing Electric Generating Capacity," Vol. 12, 1991.

The Journal of Energy and Development, "Direct Gas Purchases by Local Distribution Companies: Supply Reliability and Cost Implications," Vol. 14, 1989.

Public Utilities Fortnightly, "Alternative Searching and Maximum Benefit in Electric Least-Cost Planning," December 21, 1989.

Research Reports and Presentations

The National Regulatory Research Institute, **Pricing Local Distribution Services in A Competitive Market**, 1995.

Ninth NARUC Biennial Regulatory Information Conference, The Ohio State University, **The Unbundling and Restructuring of Local Distribution Services in the Post-636 Gas Market**, 1994.

The National Regulatory Research Institute, **A Survey of Recent State Initiatives on EPACT and FERC Order 636**, 1994 (with Belle Chen).

The National Regulatory Research Institute, **Restructuring Local Distribution Services: Possibilities and Limitations**, 1994.

The National Regulatory Research Institute, **The FERC Restructuring Rule: Implications for Local Distribution Companies and State Public Utilities Commissions**, 1993.

The National Regulatory Research Institute, **A Synopsis of the Energy Policy Act of 1992: New Tasks for State Public Utility Commissions**, 1993.

International Symposium on Energy, Environment & Information Management, Argonne National Laboratory, **Natural Gas Vehicles: Barriers, Potentials, and Government Policies**, 1992.

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The National Regulatory Research Institute, **Natural Gas Vehicles and the Role of State Public Service Commissions**, 1992 (with Youssef Hegazy).

The National Regulatory Research Institute, **Incentive Regulation for Local Gas Distribution Companies under Changing Industry Structure**, 1991 (with Mohammad Harunuzzaman, Kenneth W. Costello, and Sung-Bong Cho).

The National Regulatory Research Institute, **Discussion Papers on Competitive Bidding And Transmission Access and Pricing issues in the Context of Integrated Resource Planning**, 1990 (with Robert E. Bums, Kenneth Rose, Kevin Kelly, and Narayan Rau).

The National Regulatory Research Institute, **Gas Storage: Strategy, Regulation, and Some Competitive Implications**, 1990 (with Peter A. Nagler, Mohammad Harunuzzaman, and Govindarajan Iyyuni).

The National Regulatory Research Institute, **State Gas Transportation Policies: An Evaluation of Approaches**, 1989 (with Robert E. Bums and Peter A. Nagler).

The National Regulatory Research Institute, **Direct Gas Purchases by Gas Distribution Companies: Supply Reliability and Cost Implications**, 1989, (with Robert E. Bums and Peter A. Nagler).

The National Regulatory Research Institute, **Competitive Bidding for Electric Generating Capacity: Application and Implementation**, 1988 (with Robert E. Bums, Douglas N. Jones, and Mark Eifert).

ATTACHMENT DJD-3

Calculation of 13-month Average Common Equity

Line	Month	Per-book Common		SEET-adjusted Common Equity by Ohio Edison	Cumulative Rider DMR Revenue Net of Tax	SEET-adjusted Common Equity by OCC
		Equity by Ohio Edison	Equity by Ohio			
1						
2	Dec-16	\$1,124,183,742		\$1,109,136,880	\$0	\$1,109,136,880
3	Jan-17	\$1,092,201,072		\$1,068,353,456	\$4,790,480	\$1,073,143,936
4	Feb-17	\$1,107,599,996		\$1,074,615,532	\$9,718,610	\$1,084,334,142
5	Mar-17	\$1,080,516,400		\$1,037,142,848	\$14,680,646	\$1,051,823,494
6	Apr-17	\$1,095,285,668		\$1,043,633,101	\$18,898,929	\$1,062,532,030
7	May-17	\$1,109,101,368		\$1,050,712,661	\$23,398,499	\$1,074,111,160
8	Jun-17	\$1,083,781,244		\$1,016,109,363	\$28,473,217	\$1,044,582,580
9	Jul-17	\$1,114,862,879		\$1,035,895,616	\$34,037,679	\$1,069,933,295
10	Aug-17	\$1,139,545,984		\$1,051,006,152	\$39,287,267	\$1,090,293,419
11	Sep-17	\$1,059,398,697		\$962,558,415	\$44,035,883	\$1,006,594,298
12	Oct-17	\$1,075,647,522		\$970,525,816	\$48,644,404	\$1,019,170,220
13	Nov-17	\$1,095,680,249		\$981,385,439	\$53,301,173	\$1,034,686,612
14	Dec-17	\$1,187,918,784		\$1,036,267,583	\$58,518,353	\$1,094,785,936
15						
16	13-month Average	\$1,105,055,662		\$1,033,641,759		\$1,062,702,154

Source: Direct Testimony of Petrik, Schedule JSP-3.

ATTACHMENT DJD-4 Financial Summary of 28 Companies in SPDR Select Sector Fund - Utility Used By Ohio Power (PUCO Case No. 18-0989-EL-UNC)

Return on Equity Analysis
Year Ended December 31, 2017
(\$ in millions)

Company	Symbol	2017 GAAP Income	Adjustments	2017 Non-GAAP Income (AEP)	2017 Equity	2016 Equity	Average Equity	GAAP ROE	NON-GAAP ROE
NextEra	NEE	5,378	(1,619)	3,759	28,208	24,341	26,275	20.47%	14.31%
Duke	DUK	3,059	(22)	3,037	41,737	41,033	41,385	7.39%	7.34%
Southern	SO	842	2,051	2,893	24,167	24,758	24,463	3.44%	11.83%
Dominion	D	2,999	(851)	2,148	17,142	14,605	15,874	18.89%	13.53%
Exelon	EXC	3,770	(771)	2,999	29,857	25,837	27,847	13.54%	10.77%
AEP	AEP	1,913	(109)	1,803	18,287	17,397	17,842	10.72%	10.11%
PG&E	PCG	1,646	147	1,793	19,220	17,940	18,580	8.86%	9.65%
Sempra	SRE	256	870	1,126	12,670	12,951	12,811	2.00%	8.79%
Edison International	EIX	565	914	1,479	11,671	11,996	11,834	4.77%	12.50%
PPL Corporation	PPL	1,128	321	1,449	10,761	9,899	10,330	10.92%	14.03%
Consolidated Edison	ED	1,525	(259)	1,266	15,418	14,298	14,858	10.26%	8.52%
Public Service Enterprise Group	PEG	1,574	(168)	1,406	13,847	13,130	13,489	11.67%	10.42%
Xcel Energy Inc	XEL	1,148	23	1,171	11,455	11,021	11,238	10.22%	10.84%
WEC Energy Group Inc	WEC	1,204	(207)	997	9,461	8,930	9,196	13.09%	10.84%
DTE Energy Company	DTE	1,134	(100)	1,034	9,512	9,011	9,262	12.24%	11.16%
Eversource Energy	ES	988	0	988	11,086	10,712	10,899	9.07%	9.07%
FirstEnergy	FE	(1,724)	2,691	967	3,925	6,241	5,083	-33.92%	19.02%
Entergy Corporation	ETR	412	889	1,300	7,993	8,082	8,038	5.12%	16.18%
American Water Works	AWK	426	11	437	5,385	5,218	5,302	8.04%	8.24%
Ameren Corporation	AEE	523	154	677	7,184	7,103	7,144	7.32%	9.48%
CMS Energy Corporation	CMS	460	148	608	4,441	4,253	4,347	10.58%	13.99%
CenterPoint Energy Inc	CNP	1,792	(1,113)	679	4,688	3,460	4,074	43.99%	16.67%
SCANA Corporation	SCG	(119)	720	601	5,255	5,725	5,490	-2.17%	10.95%
Pinnacle West Capital	PNW	488	0	488	5,007	4,804	4,905	9.95%	9.95%
Alliant Energy Corporation	LNT	457	(18)	439	4,182	3,862	4,022	11.37%	10.92%
AES Corporation	AES	(1,161)	1,762	601	2,465	2,794	2,630	-44.15%	22.86%
NiSource Inc	NI	129	161	290	4,320	4,071	4,196	3.06%	6.90%
NRG Energy	NRG	(2,153)	1,709	(444)	(346)	2,041	848	-254.04%	-52.39%
		\$ 28,658	\$ 7,333	\$ 35,991	\$ 338,998	\$ 325,513	\$ 332,255	-2.40%	9.50%

Weighted Average
Unweighted Average

Safe Harbor
Standard Deviation
Standard Deviation Multiplier (95% Confidence)
SEET Threshold

Source: PUCO Case No. 19-0989-EL-UNC, Discovery Response to OCC RPD-01-005 (August 23, 2018).

ATTACHMENT DJD-5

Financial Summary of 26 Companies in SPDR Select Sector Fund (Excluding AES and NRG)

Return on Equity Analysis
Year Ended December 31, 2017
(\$ in millions)

Company	Symbol	2017 GAAP Income	2017 Non-GAAP Income (By Ohio Edison)	2017 Non-GAAP Income (By Ohio Power)	2017 Equity	2016 Equity	Average Equity	GAAP ROE	NON-GAAP ROE (By Ohio Edison)	NON-GAAP ROE (By Ohio Power)
NextEra	NEE	5,378	4,893	3,759	28,208	24,341	26,275	20.47%	18.62%	14.31%
Duke	DUK	3,059	2,963	3,037	41,737	41,033	41,385	7.39%	7.16%	7.34%
Southern	SO	842	3,100	2,893	24,167	24,758	24,463	3.44%	12.67%	11.83%
Dominion	D	2,999	3,352	2,148	17,142	14,605	15,874	18.89%	21.12%	13.53%
AEP	AEP	1,913	1,783	1,803	18,287	17,397	17,842	10.72%	9.99%	10.11%
Exelon	EXC	3,770	4,279	2,999	29,857	25,837	27,847	13.54%	15.37%	10.77%
PG&E	PCG	1,646	1,807	1,793	19,220	17,940	18,580	8.86%	9.73%	9.65%
PPL Corporation	PPL	1,128	1,385	1,449	10,761	9,899	10,330	10.92%	13.41%	14.03%
Sempra	SRE	256	1,169	1,126	12,670	12,951	12,811	2.00%	9.13%	8.79%
Public Service Enterprise Group	PEG	1,574	2,245	1,406	13,847	13,130	13,489	11.67%	16.64%	10.42%
Edison International	EIX	565	1,603	1,479	11,671	11,996	11,834	4.77%	13.55%	12.50%
Consolidated Edison	ED	1,525	1,266	1,266	15,418	14,298	14,858	10.26%	8.52%	8.52%
Xcel Energy Inc	XEL	1,148	1,171	1,171	11,455	11,021	11,238	10.22%	10.42%	10.42%
WEC Energy Group Inc	WEC	1,204	998	997	9,461	8,930	9,196	13.09%	10.85%	10.84%
Eversource Energy	ES	988	996	988	11,086	10,712	10,899	9.07%	9.14%	9.07%
DTE Energy Company	DTE	1,134	1,029	1,034	9,512	9,011	9,262	12.24%	11.11%	11.16%
FirstEnergy	FE	(1,724)	1,155	967	3,925	6,241	5,083	-33.92%	22.72%	19.02%
Energy Corporation	ETR	412	951	1,300	7,993	8,082	8,037	5.12%	11.83%	16.18%
American Water Works Company	AWK	426	535	437	5,385	5,218	5,302	8.04%	10.09%	8.24%
Ameren Corporation	AEE	523	683	677	7,184	7,103	7,144	7.32%	9.56%	9.48%
CMS Energy Corporation	CMS	460	610	608	4,441	4,253	4,347	10.58%	14.03%	13.99%
SCANA Corporation	SCG	(119)	679	601	5,255	5,725	5,490	-2.17%	12.37%	10.95%
CenterPointEnergy Inc	CNP	1,792	580	679	4,688	3,460	4,074	43.99%	14.24%	16.67%
Pinnacle West Capital Corporation	PNW	488	498	488	5,007	4,804	4,905	9.95%	10.15%	9.95%
NiSource Inc	NI	129	129	290	4,320	4,071	4,196	3.06%	3.07%	6.91%
Alliant Energy Corporation	LNT	457	456	439	4,182	3,862	4,022	11.37%	11.34%	10.91%
AES Corporation	AES									
NRG Energy	NRG									
		\$ 31,972	\$ 40,315	\$ 35,834	\$ 336,879	\$ 320,678	\$ 328,778			

Weighted Average

	9.72%	12.26%	10.90%
Safe Harbor	11.72%	14.26%	12.90%
Standard Deviation	11.84%	4.15%	2.89%
Standard Deviation Multiplier (95% Confidence)	1.64	1.64	1.64
SEET Threshold	29.15%	19.06%	15.64%

ATTACHMENT DJD-6
Financial Summary of 25 Companies in SPDR Select Sector Fund (Excluding AES, NRG, and FirstEnergy)

Return on Equity Analysis
Year Ended December 31, 2017
(\$ in millions)

Company	Symbol	2017 GAAP Income	2017 Non- GAAP Income (By Ohio Edison)	2017 Non- GAAP Income (By Ohio Power)	2017 Equity	2016 Equity	Average Equity	GAAP ROE	NON-GAAP ROE (By Ohio Edison)	NON-GAAP ROE (By Ohio Power)
NextEra	NEE	5,378	4,893	3,759	28,208	24,341	26,275	20.47%	18.62%	14.31%
Duke	DUK	3,059	2,963	3,037	41,737	41,033	41,385	7.39%	7.16%	7.34%
Southern	SO	842	3,100	2,893	24,167	24,758	24,463	3.44%	12.67%	11.83%
Dominion	D	2,999	3,352	2,148	17,142	14,605	15,874	18.89%	21.12%	13.53%
AEP	AEP	1,913	1,783	1,803	18,287	17,397	17,842	10.72%	9.99%	10.11%
Exelon	EXC	3,770	4,279	2,999	29,857	25,837	27,847	13.54%	15.37%	10.77%
PG&E	PCG	1,646	1,807	1,793	19,220	17,940	18,580	8.86%	9.73%	9.65%
PPL Corporation	PPL	1,128	1,385	1,449	10,761	9,899	10,330	10.92%	13.41%	14.03%
Sempra	SRE	256	1,169	1,126	12,670	12,951	12,811	2.00%	9.13%	8.79%
Public Service Enterprise Group	PEG	1,574	2,245	1,406	13,847	13,130	13,489	11.67%	16.64%	10.42%
Edison International	EIX	565	1,603	1,479	11,671	11,996	11,834	4.77%	13.55%	12.50%
Consolidated Edison	ED	1,525	1,266	1,266	15,418	14,298	14,858	10.26%	8.52%	8.52%
Xcel Energy Inc	XEL	1,148	1,171	1,171	11,455	11,021	11,238	10.22%	10.42%	10.42%
WEC Energy Group Inc	WEC	1,204	998	997	9,461	8,930	9,196	13.09%	10.85%	10.84%
Eversource Energy	ES	988	996	988	11,086	10,712	10,899	9.07%	9.14%	9.07%
DTE Energy Company	DTE	1,134	1,029	1,034	9,512	9,011	9,262	12.24%	11.11%	11.16%
Energy Corporation	ETR	412	951	1,300	7,993	8,082	8,037	5.12%	11.83%	16.18%
American Water Works Company	AWK	426	535	437	5,385	5,218	5,302	8.04%	10.09%	8.24%
Ameren Corporation	AME	523	683	677	7,184	7,103	7,144	7.32%	9.56%	9.48%
CMS Energy Corporation	CMS	460	610	608	4,441	4,253	4,347	10.58%	14.03%	13.99%
SCANA Corporation	SCG	(119)	679	601	5,255	5,725	5,490	-2.17%	12.37%	10.95%
CenterPointEnergy Inc	CNP	1,792	580	679	4,688	3,460	4,074	43.99%	14.24%	16.67%
Pinnacle West Capital Corporation	PNW	488	498	488	5,007	4,804	4,905	9.95%	10.15%	9.95%
NiSource Inc	NI	129	129	290	4,320	4,071	4,196	3.06%	3.07%	6.91%
Alliant Energy Corporation	LNT	457	456	439	4,182	3,862	4,022	11.37%	11.34%	10.91%
FirstEnergy	FE									
AES Corporation	AES									
NRG Energy	NRG									
Weighted Average		\$ 33,696	\$ 39,160	\$ 34,867	\$ 332,954	\$ 314,437	\$ 323,695			
								10.41%	12.10%	10.77%
								12.41%	14.10%	12.77%
								8.35%	3.64%	2.50%
								1.64	1.64	1.64
								24.10%	18.07%	14.87%

Standard Deviation Multiplier (95% Confidence)

Safe Harbor
Standard Deviation

SEET Threshold

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Case No(s). 18-0857-EL-UNC

Summary: Testimony Testimony of Daniel J. Duann, Ph.D. for Protection from the Stipulation electronically filed by Ms. Jamie Williams on behalf of Michael, William Mr.