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Via E-FILE

December 7, 2018

Public Utilities Commission of Ohio
PUCO Docketing
180 E. Broad Street, 10th Floor
Columbus, Ohio 43215

In re: Case No. 16-481-EL-UNC, 17-2436-EL-UNC, 18-1604-EL-UNC and 18-1656-EL-ATA

Dear Sir/Madam:

Please find attached the DIRECT TESTIMONY OF STEPHEN J. BARON on behalf of the OHIO ENERGY GROUP e-filed today in the above-referenced matter.

Copies have been served on all parties on the attached certificate of service. Please place this document of file.

Respectfully yours,

Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.
Jody Kyler Cohn, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Encl.
Cc: Certificate of Service

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In The Matter Of The Filing by Ohio Edison Company, the Cleveland Electric Illuminating Company and The Toledo Edison Company of a Grid Modernization Business Plan.	:	**Case No. 16-481-EL-UNC**
In The Matter Of The Filing by Ohio Edison Company, the Cleveland Electric Illuminating Company and The Toledo Edison Company of an Application for Approval of a Distribution Platform Modernization Plan.	:	**Case No. 17-2436-EL-UNC**
In The Matter Of The Filing by Ohio Edison Company, the Cleveland Electric Illuminating Company and The Toledo Edison Company to Implement Matters Relating to the Tax Cuts and Jobs Act of 2017.	:	**Case No. 18-1604-EL-UNC**
In The Matter Of The Application Filing of Ohio Edison Company, the Cleveland Electric Illuminating Company and The Toledo Edison Company for Approval of a Tariff Change.	:	**Case No. 18-1656-EL-ATA**

DIRECT TESTIMONY

OF

STEPHEN J. BARON

ON BEHALF OF
THE OHIO ENERGY GROUP

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

December 7, 2018

I. QUALIFICATIONS AND SUMMARY

Q. Please state your name and business address.

A. My name is Stephen J. Baron. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. What is your occupation and by whom are you employed?

A. I am the President and a Principal of Kennedy and Associates, a firm of utility rate, planning, and economic consultants in Atlanta, Georgia.

Q. Please describe briefly the nature of the consulting services provided by Kennedy and Associates.

A. Kennedy and Associates provides consulting services in the electric and gas utility industries. Our clients include state agencies and industrial electricity consumers. The firm provides expertise in system planning, load forecasting, financial analysis, cost-of-service, and rate design. Current clients include the Georgia and Louisiana Public Service Commissions, and industrial and commercial consumers throughout the United States. My educational background and professional experience are summarized on Exhibit SJB-1.

Q. **On whose behalf are you testifying in this proceeding?**

A. I am testifying on behalf of The Ohio Energy Group ("OEG"), a group of large industrial customers of Toledo Edison, Ohio Edison, and Cleveland Electric Illuminating Company (collectively, "FirstEnergy" or "Companies").

Q. **Have you previously presented testimony in any of the Companies cases in Ohio?**

A. Yes. I have previously testified in multiple Public Utilities Commission of Ohio ("PUCO" or "Commission") case related to FirstEnergy, including Case Nos. 14-1297-EL-SSO, 09-906-EL-SSO, 08-936-EL-SSO, 08-935-EL-SSO, and 07-551-EL-AIR *et al.*

Q. **Have you previously presented testimony on issues associated with the Tax Cut and Jobs Act ("TCJA")?**

Yes. I have testified on various issues associated with the TCJA in a Potomac Electric and Power Company case before the Public Service Commission of the District of Columbia, a Monongahela Power Company/Potomac Edison Company TCJA case in West Virginia, an Appalachian Power Company/Wheeling Power Company TCJA case in West Virginia, a Kingsport Power Company TCJA case in Tennessee. I also recently filed testimony on TCJA issues in an Appalachian Power Company case in Virginia.

Q. What is the purpose of your testimony?

A. I discuss the portion of the Stipulation and Recommendation filed November 9, 2018 in the above-captioned proceedings ("Stipulation") setting forth how current tax savings not reflected in FirstEnergy's riders and excess accumulated deferred income tax ("EDIT") resulting from the enactment of the TCJA will be flowed back to customers. I also discuss the allocation of the grid modernization costs agreed to in the Stipulation.

Q. Would you please summarize your testimony and recommendations?

A. As an initial matter, I would note that OEG believes that the entire Stipulation is reasonable and satisfies the requisite legal standards for approval. However, the scope of my testimony is limited to: 1) the methodology used to flow back the current tax savings not reflected in FirstEnergy's riders and the EDIT resulting from the TCJA; and 2) the proper allocation of the grid modernization costs agreed to in the Stipulation. With respect to both of these matters, I recommend that the Commission approve the approaches proposed in the Stipulation.

Q. How do the Stipulating Parties propose to flow back the current tax savings and EDIT resulting from the TCJA?

A. The Stipulation recommends that the Commission create a new credit mechanism to flow back the current tax savings and EDIT related to the TCJA. With respect to the current tax savings not reflected in FirstEnergy's riders, the Stipulation recommends that those savings be flowed back to individual rate schedules based upon distribution revenues established in the Companies' last base rate cases. With respect to the normalized and non-normalized EDIT resulting from the TCJA, the Stipulation recommends that it be flowed back to individual rate schedules on a 50% demand/50% energy basis: One half of the EDIT would be flowed back to residential and non-residential rate schedules on a 4 Coincident Peak ("CP") methodology, using the Companies' 4 CP for the 2017 calendar year. The other half of the EDIT would be flowed back to residential and non-residential rate schedules based upon 2017 kilowatt-hour sales.

Q. Why is this methodology more appropriate than flowing back both the current tax savings and the EDIT based solely upon distribution revenues?

A. Flowing back the current tax savings based upon distribution revenue is appropriate because it is possible to accurately track the customers who are currently paying the taxes to FirstEnergy. Since we can verify that those taxes are being paid by customers on the basis of current distribution revenues, it is reasonable to return those taxes to customers on the basis of current distribution revenues.

Conversely, the distribution-related ADIT balances on the Companies' books were recovered from retail customers over the 40 to 50 year useful lives of thousands of distribution assets. This historic period includes the time before FirstEnergy's rates were unbundled in 2000. As a result of the TCJA, 40% of the ADIT balances are now excess. It is not possible to track how every dollar of the distribution-related ADIT was collected over that time. And it would be unreasonable to assume that every dollar was collected from customers in perfect alignment with cost-of-service. Indeed, it is likely that at least a portion of the ADIT was collected from rate schedules that were subsidizing other rate schedules. For example, if for a period of time, the rate of return on the residential class was negative, then no taxes were recovered from residential customers during that period. Consequently, recognizing the likelihood that FirstEnergy's rates included at least some interclass subsidies over the last 40 to 50 years, the Stipulation crafts a reasonable middle-ground approach with respect to the EDIT.

Q. Why else is the EDIT flow-back methodology fair?

A. In FirstEnergy's last Electric Security Plan ("ESP") case, Case No. 14-1297-EL-SSO, the Commission established the Distribution Modernization Rider ("DMR"), which is a distribution-related charge, yet it is allocated 50% on the basis of demand and 50% on the basis of energy. The DMR cost allocation methodology requires customers who use relatively little of FirstEnergy's distribution service to pay a large distribution cost. However, by adopting a 50% demand/50% energy allocation to flow back the EDIT savings, the Stipulation provides some offset to those customers.

Q. Does the Stipulation's proposed flow-back methodology align with the Commission's expressed directives for TCJA-related cases?

A. Yes. On page 18 of the Commission's October 24, 2018 Finding and Order in Case No. 18-47-AU-COI, the Commission encouraged Ohio utilities to *"follow, as an example, the process and methods contained in AEP Ohio's recently approved plan implementing federal income tax savings in its rates."* In the AEP Ohio case, the tax savings and the normalized EDIT were flowed back to customers on the basis of distribution revenues. But the non-normalized EDIT was flowed back to customers differently: One half of the non-normalized EDIT was flowed back to residential and non-residential customers on a 5 CP basis based upon the 2017 calendar year while the other half was flowed back to residential and non-residential customers based upon 2017 kWh sales. Hence, the tax savings flow-back methodology proposed in the Stipulation is similar to the 50% demand/50% energy methodology used in AEP Ohio's TCJA case.

Q. How do the Stipulating Parties propose to allocate the grid modernization costs agreed to in the Stipulation?

A. The Stipulation recommends that the Companies recover grid modernization costs through the existing Advanced Metering Infrastructure/Modern Grid Rider ("Rider AMI"). Rider AMI is the appropriate rate mechanism for recovery of such costs. The grid modernization costs agreed to in the Stipulation are ongoing distribution-related costs and therefore should be recovered on the basis of distribution revenues.

Q. Does that complete your testimony?

A. Yes.

CERTIFICATE OF SERVICE

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document on the parties referenced on the service list of the docket card who have electronically subscribed to this case. In addition, the undersigned certifies that a courtesy copy of the foregoing document is also being served (via electronic mail) on the 7th day of December, 2018 to the following:

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